

NEW APPLICATION
ORIGINAL

FRIEND, HUDAK & HARRIS, LLP

ATTORNEYS AT LAW

SUITE 1450

THREE RAVINIA DRIVE

ATLANTA, GEORGIA 30346-2117

(770) 399-9500

FACSIMILE (770) 395-0000

EMAIL: fh2@fh2.com



0000003319

May 18, 2004

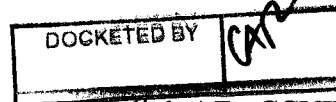
VIA OVERNIGHT MAIL

Arizona Corporation Commission
Docket Control
1200 West Washington Street
Phoenix, Arizona 85007-2927

Arizona Corporation Commission

DOCKETED

MAY 20 2004



AZ CORP COMMISSION
DOCUMENT CONTROL

2004 MAY 20 A 10:20

RECEIVED

Re: Application and Petition of Charter Fiberlink AZ - CCVII, LLC for a Certificate of Convenience and Necessity to Provide Intrastate Telecommunications Services (the "Application")

T-04260A-04-0383

Dear Sir or Madam:

Enclosed are the original and fourteen (14) copies of Charter Fiberlink AZ – CCVII, LLC's ("Charter") Application. Please file Charter's Application in your usual fashion and return one (1) file-stamped copy to us in the enclosed envelope.

If you have any questions or comments, please call the undersigned.

Sincerely,

Brad S. Macdonald

BSM/jh

Enc.

cc: Charter Fiberlink AZ – CCVII, LLC
(with enclosure)

ARIZONA CORPORATION COMMISSION

Application and Petition for Certificate of Convenience and Necessity to Provide
Intrastate Telecommunications Services

Mail original plus 13 copies of completed application to:

For Docket Control Only:
(Please Stamp Here)

Docket Control Center
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007-2927

AZ CORP COMMISSION
DOCUMENT CONTROL

2004 MAY 20 A 10:20

RECEIVED

Please indicate if you have current applications pending
in Arizona as an Interexchange reseller, AOS provider,
or as the provider of other telecommunication services.

Type of Service: Not applicable

Docket No.: _____ Date: _____ Date Docketed: _____

Type of Service: Not applicable

Docket No.: _____ Date: _____ Date Docketed: _____

A. COMPANY AND TELECOMMUNICATION SERVICE INFORMATION

(A-1) Please indicate the type of telecommunications services that you want to provide in Arizona and answer the appropriate numbered items:

- ☒ Resold Long Distance Telecommunications Services (Answer Sections A, B).
- ☒ Resold Local Exchange Telecommunications Services (Answer Sections A, B, C).
- ☒ Facilities-Based Long Distance Telecommunications Services (Answer Sections A, B, D).
- ☒ Facilities-Based Local Exchange Telecommunications Services (Answer Sections A, B, C, D, E)
- ☒ Alternative Operator Services Telecommunications Services (Answer Sections A, B)

(A-2) The name, address, telephone number (including area code), facsimile number (including area code), e-mail address, and World Wide Web address (if one is available for consumer access) of the Applicant:

Charter Fiberlink AZ - CCVII, LLC
12405 Powerscourt Drive
St. Louis, Missouri 63131-3674
Tel: (314) 965-0555
Fax: (314) 965-6640
www.charter.com

(A-3) The d/b/a ("Doing Business As") name if the Applicant is doing business under a name different from that listed in Item (A-2):

None.

(A-4) The name, address, telephone number (including area code), facsimile number (including area code), and E-mail address of the Applicant's Management Contact:

Carrie L. Cox
Director of Legal and Regulatory Affairs
Charter Fiberlink AZ - CCVII, LLC
12405 Powerscourt Drive
St. Louis, Missouri 63131-3674
Tel: (314) 543-2567
Fax: (314) 965-6640
CCox1@chartercom.com

(A-5) The name, address, telephone number (including area code), facsimile number (including area code), and E-mail address of the Applicant's Attorney and/or Consultant:

Charles A. Hudak
Brad S. Macdonald
Friend, Hudak & Harris, LLP
Three Ravinia Drive, Suite 1450
Atlanta, Georgia 30346-2131
Tel: (770) 399-9500
Fax: (770) 395-0000
chudak@fh2.com
bmacdonald@fh2.com

(A-6) The name, address, telephone number (including area code), facsimile number (including area code), E-mail address of the Applicant's Complaint Contact Person:

Carrie L. Cox
Director of Legal and Regulatory Affairs
Charter Fiberlink AZ - CCVII, LLC
12405 Powerscourt Drive
St. Louis, Missouri 63131-3674
Tel: (314) 543-2567
Fax: (314) 965-6640
CCox1@chartercom.com

(A-7) What type of legal entity is the Applicant?

- ☐ Sole proprietorship
- ☐ Partnership: ☐ Limited, ☐ General, ☐ Arizona, ☐ Foreign
- ☒ Limited Liability Company: ☐ Arizona, ☒ Foreign
- ☐ Corporation: ☐ "S", ☐ "C", ☐ Non-profit
- Domicile: ☐ Arizona, ☐ Foreign
- Other, specify: _____

(A-8) Please include "Attachment A":

Attachment "A" must include the following information:

1. A copy of the Applicant's Certificate of Good Standing as a domestic or foreign corporation, LLC, or other entity in the State of Arizona.
2. A list of the names of all owners, partners, limited liability company managers (or if a member managed LLC, all members), or corporation officers and directors (specify).
3. Indicate percentages of ownership of each person listed in A-8.2.

See Attachment "A".

(A-9) Include your Tariff as "Attachment B".

Your Tariff must include the following information:

1. Proposed Rates and Charges for each service offered (reference by Tariff page number).
2. Tariff Maximum Rate and Prices to be charged (reference by Tariff page number).
3. Terms and Conditions Applicable to provision of Service (reference by Tariff page number).
4. Deposits, Advances, and/or Prepayments Applicable to provision of Service (reference by Tariff page number).
5. The proposed fee that will be charged for returned checks (reference by Tariff page number).

See Attachment "B".

(A-10) Indicate the geographic market to be served:

☒ X Statewide. (Applicant adopts statewide map of Arizona provided with this application).

☐ Other. Describe and provide a detailed map depicting the area.

See Attachment "C".

(A-11) Indicate if the Applicant or any of its officers, directors, partners, or managers has been or are currently involved in any formal or informal complaint proceedings pending before any state or federal regulatory commission, administrative agency, or law enforcement agency.

Describe in detail any such involvement. Please make sure you provide the following information:

1. States in which the Applicant has been or is involved in proceedings.
2. Detailed explanations of the Substance of the Complaints.
3. Commission Orders that resolved any and all Complaints.
4. Actions taken by the Applicant to remedy and/or prevent the Complaints from re-occurring.

Neither the Applicant nor any of its officers, directors, partners, or managers have been or are currently involved in any formal or informal complaint proceedings pending before any state or federal regulatory commission, administrative agency, or law enforcement agency.

(A-12) Indicate if the Applicant or any of its officers, directors, partners, or managers has been or are currently involved in any civil or criminal investigation, or had judgments entered in any civil matter, judgments levied by any administrative or regulatory agency, or been convicted of any criminal acts within the last ten (10) years.

Describe in detail any such judgments or convictions. Please make sure you provide the following information:

1. States involved in the judgments and/or convictions.
2. Reasons for the investigation and/or judgment.

3. Copy of the Court order, if applicable.

Neither the Applicant nor any of its officers, directors, partners, or managers have been or are currently involved in any civil or criminal investigation, or had judgments entered in any civil matter, judgments levied by any administrative or regulatory agency, or been convicted of any criminal acts within the last ten (10) years.

(A-13) Indicate if the Applicant's customers will be able to access alternative toll service providers or resellers via 1+101XXXX access.

☒ Yes ☐ No

Applicant's initial service offering in Arizona will be merely point-to-point data services that are not interconnected with the public switched telephone network. Such services will not permit access to alternative toll service providers or resellers via 1+101XXXX. However, when Applicant expands its service offerings to include traditional switched/interconnected local exchange and long distance services, Applicant's customers will be able to access alternative toll service providers or resellers via 1+101XXXX access.

(A-14) Is applicant willing to post a Performance Bond? Please check appropriate box(s).

☐ For Long Distance Resellers, a \$10,000 bond will be recommended for those resellers who collect advances, prepayments or deposits.

☐ Yes ☒ No

If "No", continue to question (A-15).

☐ For Local Exchange Resellers, a \$25,000 bond will be recommended.

☐ Yes ☒ No

If "No", continue to question (A-15).

☐ For Facilities-Based Providers of Long Distance, a \$100,000 bond will be recommended.

☐ Yes ☒ No

If "No", continue to question (A-15).

☐ For Facilities-Based Providers of Local Exchange, a \$100,000 bond will be recommended.

☐ Yes ☒ No

If "No", continue to question (A-15).

Note: Amounts are cumulative if the Applicant is applying for more than one type of service.

(A-15) If No to any of the above, provide the following information. Clarify and explain the Applicant's deposit policy (reference by tariff page number). Provide a detailed explanation of why the applicant's superior financial position limits any risk to Arizona consumers.

Applicant's deposit policy is set forth in Section 2.8 at page 20 of its Tariff No. 1, and Section 2.8 at page 20 of its Tariff No. 2. These sections provide that Applicant "may, in some instances, require deposits from Customers. Any such cash deposit received by [Applicant] will bear simple interest at a rate of 7% per annum. Deposits will not exceed two and a half times (2.5x) the estimated monthly charge for service." Applicant anticipates that it will generally not require deposits from its customers. However, in some instances Applicant may seek a deposit from a Customer when, for example, Applicant perceives the customer to be a credit risk.

Applicant is a newly created limited liability company. As a limited liability company, Applicant has members instead of shareholders. CCVII Fiberlink, LLC owns one hundred percent (100%) of Applicant's membership interests. Charter Communications, Inc. ("Charter"), which is a publicly traded company (Nasdaq - CHTR) in turn, indirectly owns one hundred percent (100%) of CCVII Fiberlink, LLC. During the 2003 calendar year, Charter Communications, Inc. generated approximately \$4.8 billion in revenues and, as of December 31, 2003, Charter had in excess of \$21.4 billion in assets. Applicant, as a Charter operating subsidiary, has Charter's complete support of its Arizona operations. Charter's immense financial capability serves as adequate protection for Applicant's Arizona customers.

(A-16) Submit copies of affidavits of publication that the Applicant has, as required, published legal notice of the Application in all counties where the applicant is requesting authority to provide service.

Note: For Resellers, the Applicant must complete and submit an Affidavit of Publication Form as Attachment "C" before Staff prepares and issues its report. Refer to the Commission's website for Legal Notice Material (Newspaper Information, Sample Legal Notice and Affidavit of Publication). For Facilities-Based Service Providers, the Hearing Division will advise the Applicant of the date of the hearing and the publication of legal notice. Do not publish legal notice or file affidavits of publication until your are advised to do so by the Hearing Division.

Applicant is applying for facilities-based authority. Therefore, no affidavits are required prior to the filing of this Application.

(A-17) Indicate if the Applicant is a switchless reseller of the type of telecommunications services that the Applicant will or intends to resell in the State of Arizona:

☐ Yes ☒ No

If "Yes", provide the name of the company or companies whose telecommunications services the Applicant resells.

(A-18) List the States in which the Applicant has had an application approved or denied to offer telecommunications services similar to those that the Applicant will or intends to offer in the State of Arizona:

Note: If the Applicant is currently approved to provide telecommunications services that the Applicant intends to provide in Arizona in less than six states, excluding Arizona, list the Public Utility Commission ("PUC") of each state that granted the authorization. For each PUC listed provide the name of the contact person, their phone number, mailing address including zip code, and e-mail address.

Applicant is not certificated and is not seeking certification to provide telecommunications and data communications services in any other state. However, Applicant has numerous affiliates who are certificated, or are seeking certification, to provide services similar to those described herein in the following states:

(a) **Certificated Affiliates:**

Charter Fiberlink - Alabama, LLC	Alabama	CLEC, IXC
Charter Fiberlink AR - CCVII, LLC	Arkansas	CLEC, IXC
Charter Fiberlink CA - CCO, LLC	California	IXC
Charter Fiberlink CA - CCVII, LLC	California	IXC
Charter Fiberlink CO - CCO, LLC	Colorado	CLEC, IXC
Charter Fiberlink - Georgia, LLC	Georgia	IXC
Charter Fiberlink ID - CCVII, LLC	Idaho	IXC
Charter Fiberlink - Illinois, LLC	Illinois	CLEC, IXC
Charter Fiberlink KS - CCO, LLC	Kansas	CLEC, IXC

Charter Fiberlink KS - CCO, LLC	Kansas	CLEC, IXC
Charter Fiberlink - Kentucky, LLC	Kentucky	CLEC, IXC
Charter Fiberlink MA - CCO, LLC	Massachusetts	CLEC, IXC
Charter Fiberlink - Michigan, LLC	Michigan	CAP, IXC
Charter Fiberlink, LLC	Minnesota	CLEC, IXC
Charter Fiberlink - Missouri, LLC	Missouri	CLEC, IXC
Charter Fiberlink - Nebraska, LLC	Nebraska	CLEC, IXC
Charter Fiberlink NV - CCVII, LLC	Nevada	CLEC, IXC
Charter Fiberlink NM - CCO, LLC	New Mexico	CLEC
Charter Fiberlink NY - CCO, LLC	New York	CLEC, IXC
Charter Fiberlink NC - CCO, LLC	North Carolina	CLEC, IXC
Charter Fiberlink NC - CCVII, LLC	North Carolina	CLEC, IXC
Charter Fiberlink OR - CCVII, LLC	Oregon	CLEC, IXC
Charter Fiberlink SC - CCO, LLC	South Carolina	CLEC, IXC
Charter Fiberlink SC - CCVII, LLC	South Carolina	CLEC, IXC
Charter Fiberlink - Tennessee, LLC	Tennessee	CLEC, IXC
Charter Fiberlink TX - CCO, LLC	Texas	IXC
Charter Fiberlink VT - CCO, LLC	Vermont	CLEC, IXC
Charter Fiberlink WA - CCVII, LLC	Washington	CLEC, IXC
Charter Fiberlink, LLC	Wisconsin	CLEC, IXC

(b) Affiliates with Certifications Pending:

<i>Affiliate</i>	<i>State</i>	<i>Authorization Sought</i>
Charter Fiberlink CA - CCO, LLC	California	CLEC
Charter Fiberlink CA - CCVII, LLC	California	CLEC
Charter Fiberlink CT - CCO, LLC	Connecticut	CLEC, IXC
Charter Fiberlink - Georgia, LLC	Georgia	CLEC
Charter Fiberlink - ID CCVII, LLC	Idaho	CLEC
Charter Fiberlink LA - CCO, LLC	Louisiana	CLEC, IXC
Charter Fiberlink LA - CCVI, LLC	Louisiana	CLEC, IXC
Charter Fiberlink MS - CCVI, LLC	Mississippi	CLEC, IXC
Charter Fiberlink MS - CCVII, LLC	Mississippi	CLEC, IXC
Charter Fiberlink NM - CCO, LLC	New Mexico	IXC
Charter Fiberlink NY - CCVII, LLC	New York	CLEC, IXC
Charter Fiberlink OK - CCVII, LLC	Oklahoma	CLEC, IXC
Charter Fiberlink VA - CCO, LLC	Virginia	CLEC, IXC
Charter Fiberlink VA - CCVI, LLC	Virginia	CLEC, IXC
Charter Fiberlink VA - CCVII, LLC	Virginia	CLEC, IXC
Charter Fiberlink WV - CCO, LLC	West Virginia	CLEC, IXC
Charter Fiberlink WV - CCVI, LLC	West Virginia	CLEC, IXC

(A-19) List the States in which the Applicant currently offers telecommunications services similar to those that the Applicant will or intends to offer in the State of Arizona.

Note: If the Applicant currently provides telecommunication services that the Applicant intends to provide in Arizona in six or more states, excluding Arizona, list the states. If the Applicant does not currently provide telecommunications services that the Applicant intends to provide in Arizona in five or less states, list the key personnel employed by the Applicant. Indicate each employee's name, title, position, description of their work experience, and years of service in the telecommunications services industry.

See Item A-19 above. In addition, the key personnel comprising Applicant's management team

are described at Attachment "F".

(A-20) List the names and addresses of any alternative providers of the service that are also affiliates of the telecommunications company, as defined in R14-2-801.

None of Applicant's affiliates, as defined in R14-2-801, is an alternative provider of Applicant's services in Arizona.

B. FINANCIAL INFORMATION

(B-1) Indicate if the Applicant has financial statements for the two (2) most recent years.

☐ Yes

☒ No

If "No," explain why and give the date on which the Applicant began operations.

Applicant is a newly formed entity and has not yet begun operations. Applicant anticipates commencing operations shortly after approval of this Application. Applicant has the assurance of Charter that it will be provided with the financial resources necessary to operate on a continuous basis in the State of Arizona. The most recent public financial statements of Charter, which appeared in Charter's Securities and Exchange Commission Form 10-K dated March 15, 2004, are attached hereto at Attachment "D".

(B-2) Include "Attachment D".

Provide the Applicant's financial information for the two (2) most recent years.

1. A copy of the Applicant's balance sheet.
2. A copy of the Applicant's income statement.
3. A copy of the Applicant's audit report.
4. A copy of the Applicant's retained earnings balance.
5. A copy of all related notes to the financial statements and information.

Note: Make sure "most recent years" includes current calendar year or current year reporting period.

Because Applicant is a newly formed entity and has not yet begun operations, it does not have financial statements for the two (2) most recent years. However, Applicant has the assurance of its ultimate corporate parent, Charter, that it will be provided with the financial resources necessary to operate on a continuous basis in the State of Arizona. Accordingly, Applicant is providing Charter's audited financial information for the two (2) most recent years (2002 and 2003) at Attachment "D" hereto.

(B-3) Indicate if the Applicant will rely on the financial resources of its Parent Company, if applicable.

Applicant will obtain financing directly from Charter to support its initiation of service, its initial provision of voice and data communications services in Arizona, and, if necessary, its procurement of any systems or facilities. However, inasmuch as Applicant merely intends to operate leased facilities procured from its cable affiliates and other providers operating in Arizona, Applicant believes that the revenues that it will derive from its subscribers will provide adequate financing to support its ongoing operations.

(B-4) The Applicant must provide the following information.

1. Provide the projected total revenue expected to be generated by the provision of

telecommunications services to Arizona customers for the first twelve months following certification, adjusted to reflect the maximum rates for which the Applicant requested approval. Adjusted revenues may be calculated as the number of units sold times the maximum charge per unit.

2. Provide the operating expenses expected to be incurred during the first twelve months of providing telecommunications services to Arizona customers following certification.
3. Provide the net book value (original cost less accumulated depreciation) of all Arizona jurisdictional assets expected to be used in the provision of telecommunications service to Arizona customers at the end of the first twelve months of operation. Assets are not limited to plant and equipment. Items such as office equipment and office supplies should be included in this list.
4. If the projected value of all assets is zero, please specifically state this in your response.
5. If the projected fair value of the assets is different than the projected net book value, also provide the corresponding projected fair value amounts.

See Attachment "E".

C. RESOLD AND/OR FACILITIES-BASED LOCAL EXCHANGE TELECOMMUNICATIONS SERVICES

(C-1) Indicate if the Applicant has a resale agreement in operation,

☐ Yes

☒ No

If "Yes", please reference the resale agreement by Commission Docket Number or Commission Decision Number.

D. FACILITIES-BASED LONG DISTANCE AND/OR FACILITIES BASED LOCAL EXCHANGE TELECOMMUNICATIONS SERVICES

(D-1) Indicate if the Applicant is currently selling facilities-based long distance telecommunications services AND/OR facilities-based local exchange telecommunications services in the State of Arizona. This item applies to an Applicant requesting a geographic expansion of their CC&N:

☐ Yes

☒ No

If "Yes," provide the following information: **Not Applicable.**

1. The date or approximate date that the Applicant began selling facilities-based long distance telecommunications services AND/OR facilities-based local exchange telecommunications services for the State of Arizona.
2. Identify the types of facilities-based long distance telecommunications services AND/OR facilities-based local exchange telecommunications services that the Applicant sells in the State of Arizona.

If "No," indicate the date when the Applicant will begin to sell facilities-based long distance telecommunications AND/OR facilities-based local exchange telecommunications services in the State of Arizona:

Applicant intends to begin offering its point-to-point private line data services in Arizona shortly after the Commission grants it the authority to do so.

(D-2) Check here if you wish to adopt as your petition a statement that the service has already been classified as competitive by Commission Decision:

☒ Decision # 64178 Resold Long Distance

☒ Decision # 64178 Resold LEC

☒ Decision # 64178 Facilities Based Long Distance

☒ Decision # 64178 Facilities Based LEC

E. FACILITIES-BASED LOCAL EXCHANGE TELECOMMUNICATIONS SERVICES

(E-1) Indicate whether the Applicant will abide by the quality of service standards that were approved by the Commission in Commission Decision Number 59241:

☒ Yes

☐ No

(E-2) Indicate whether the Applicant will provide all customers with 911 and E911 service, where available, and will coordinate with incumbent local exchange carriers ("ILECs") and emergency service providers to provide this service:

☒ Yes

☐ No

Applicant's initial service offering in Arizona will be merely point-to-point data services that are not interconnected with the public switched telephone network. Such services will not permit access to 911 and E911 services. However, when Applicant expands its service offerings to include traditional switched/interconnected local exchange service, Applicant's customers will be able to access 911 and E911 services.

(E-3) Indicate that the Applicant's switch is "fully equal access capable" (i.e., would provide equal access to facilities-based long distance companies) pursuant to A.A.C. R14-2-1111 (A):

☐

Yes

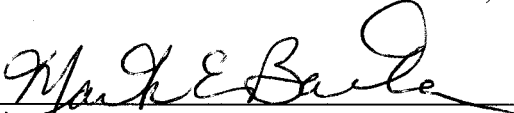
☐

No

Not applicable. Applicant's initial service offering will not require it to deploy a switch. However, when Applicant expands its service offerings to include traditional switched/interconnected local exchange service, any switch it deploys will be equal access capable.

I certify that if the applicant is an Arizona corporation, a current copy of the Articles of Incorporation is on file with the Arizona Corporation Commission and the applicant holds a Certificate of Good Standing from the Commission. If the company is a foreign corporation or partnership, I certify that the company has authority to transact business in Arizona. I certify that all appropriate city, county, and/or State agency approvals have been obtained. Upon signing of this application, I attest that I have read the Commission's rules and regulations relating to the regulation of telecommunications services (A.A.C. Title 14, Chapter 2, Article 11) and that the company will abide by Arizona state law including the Arizona Corporation Commission Rules. I agree that the Commission's rules apply in the event there is a conflict between those rules and the company's tariff, unless otherwise ordered by the Commission. I certify that to the best of my knowledge the information provided in this Application and Petition is true and correct.

CHARTER FIBERLINK AZ - CCVII, LLC



Mark Barber
Vice President - Telephony

May 11, 2004

SUBSCRIBED AND SWORN to before me this 11th day of May, 2004



NOTARY PUBLIC

My Commission Expires

June 15, 2007

JOAN OATIS
NOTARY PUBLIC - NOTARY SEAL
STATE OF MISSOURI
ST. LOUIS CITY
MY COMMISSION EXPIRES JUNE 15, 2007

ATTACHMENT "A"

Applicant's Certificate of Good Standing is attached hereto.

Applicant is a Delaware limited liability company. As a limited liability company, Applicant has members instead of shareholders. CCVII Fiberlink, LLC owns one hundred percent (100%) of Applicant's membership interests. Charter Communications, Inc., in turn, indirectly owns one hundred percent (100%) of CCVII Fiberlink, LLC.

Applicant's officers and directors are as follows:

OFFICERS

Carl E. Vogel, President and Chief Executive Officer

Steven A. Schumm, Executive Vice President, Chief Administrative Officer and Interim Chief Financial Officer

Margaret A. Bellville, Executive Vice President and Chief Operating Officer

Curtis S. Shaw, Executive Vice President and General Counsel

Paul E. Martin, Senior Vice President – Corporate Controller

Wayne Davis, Senior Vice President – Engineering & Technical Operations

Steve J. Santamaria, Assistant to the President and Vice President – Management Services

Eloise E. Schmitz, Vice President – Finance & Acquisitions, Treasurer and Assistant Secretary

Marcy Lifton Vice President and Senior Counsel and Assistant Secretary

Timothy L. Sims, Vice President – Tax

Mark Barber, Vice President – Telephony

Hunt Sevier Brown, Vice President, Counsel – Legal Operations & Assistant Secretary

Carrie Cox, Assistant Secretary

DIRECTOR

Thomas A. Cullen

* The business address for all officers and directors is 12405 Powerscourt Drive, St. Louis, Missouri 63131.

STATE OF ARIZONA



Office of the CORPORATION COMMISSION

CERTIFICATE OF REGISTRATION

To all to whom these presents shall come, greeting:

I, Brian C. McNeil, Executive Secretary of the Arizona Corporation Commission, do hereby certify that


*****CHARTER FIBERLINK AZ-CCVII, LLC*****


a foreign limited liability company organized under the laws of the jurisdiction of Delaware did obtain a Certificate of Registration in Arizona on the 9th day of February 2004.

This certificate relates only to the legal authority of the above named entity as of the date issued. This certificate is not to be construed as an endorsement, recommendation, or notice of approval of the entity's condition or business activities and practices.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the official seal of the Arizona Corporation Commission. Done at Phoenix, the Capital, this 21st Day of February, 2004, A. D.




Executive Secretary

By 

AZ. CORP. COMMISSION
DELIVERED

FEB 09 2004

DO NOT PUBLISH

THIS SECTION

1. The company name must contain an ending which may be "limited liability company," "limited company," or the abbreviations "L.L.C.", "L.C.", "LLC" or "LC". If you are the holder or assignee of a tradename or trademark, attach Declaration of Tradename Holder form. If you do not plan to use the name in Arizona, under which your company is organized, then provide the name which you plan to use.

2. Provide the name of the state or jurisdiction under whose laws your company was formed.

3. Provide the date on which your company organized in the state or jurisdiction under whose laws it was formed.

4. Provide the general character of business you plan to transact in Arizona.

5. The statutory agent must provide both a physical and mailing address. If statutory agent has a P.O. Box, then they must provide a physical description of their street address/location.

APPLICATION FOR REGISTRATION

OF A

FOREIGN LIMITED LIABILITY COMPANY

Celia Sarmiento

2-9-04

R. 1116486-0

1.a. The name of the limited liability company is:

Charter Fiberlink AZ-CCVII, LLC

1.b. If the name of the company is different than the proposed name for use in Arizona, then the name under which the company proposes to transact business in Arizona:

1.c. If the name of the company does not contain the words "Limited Liability Company," "Limited Company," "L.L.C." or "L.C.," then the name of the company with the words or abbreviation which it elects to add thereto for use in Arizona is:

2. The company is organized under the laws of: Delaware

3. The date of the company's formation is: 1/20/2004

4. The purpose of the company or the general character of business it proposes to transact in Arizona is:

cable telecommunications

5. The name and street address of the statutory agent for the foreign limited liability company in Arizona is:

Corporation Service Company

2338 W. Royal Palm Road, Suite J

Phoenix, AZ 85021

**DO NOT PUBLISH
THIS SECTION**

6. If you do not appoint a statutory agent when you file the application, you must do so within sixty days of filing. Your failure to do so, may result in revocation of your Certificate of Registration.

7. If the jurisdiction under the law of which your company is formed, you must provide the address of the principle office of the company, in whatever state or jurisdiction it is located.

The application must be executed by a member, manager or duly authorized agent.

Phone and Fax are optional.

The agent must consent to the appointment by executing the consent.

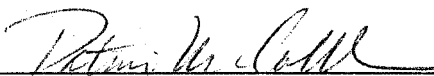
See A.R.S. §29-601 et seq. for more info.

LL0005
Rev. 09/03

6. The Arizona Corporation Commission is appointed as the Statutory Agent for service of process if either of the following occur.
- A. An agent has not been appointed under paragraph 5, or if the agent's authority has been revoked.
 - B. The agent cannot be found or served with the exercise of reasonable diligence.
7. The address of the office required to be maintained in the jurisdiction under the laws of which the company is organized, if required; or, if not required, the address of the principal office of the company is:

12405 Powerscourt Dr., St. Louis, MO 63131

Executed this 3rd day of February, 2004.



[signature]

Patricia M. Carroll
Vice President of Charter
Communications, Inc., Mgr.

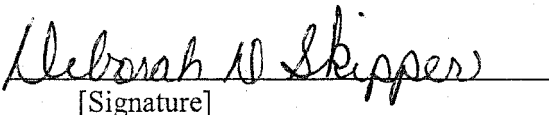
[print name]

[title]

PHONE 314-965-0555 FAX 314-965-6640

ACCEPTANCE OF APPOINTMENT BY STATUTORY AGENT

I, Corporation Service Company, having been designated to act as statutory agent, hereby consent to act in that capacity until removed or resignation is submitted in accordance with the Arizona Revised Statutes.



[Signature]

Deborah D. Skipper
Asst. V. Pres.

[Print name]

[If signing on behalf of a company serving as
statutory agent, print company name here]

LIMITED LIABILITY COMPANY AGREEMENT

OF

CHARTER FIBERLINK AZ-CCVII, LLC

(a Delaware Limited Liability Company)

This LIMITED LIABILITY COMPANY AGREEMENT (as amended from time to time, this "Agreement") is entered into as of February 11, 2004, by CC VII Fiberlink, LLC, a Delaware limited liability company ("CCVII"), as the sole member of Charter Fiberlink AZ-CCVII, LLC, a Delaware limited liability company (the "Company").

WITNESSETH:

WHEREAS, the Certificate of Formation of the Company was executed and filed in the office of the Secretary of State of the State of Delaware on January 20, 2004;

WHEREAS, CC VII Fiberlink, LLC is the sole member of the Company; and

NOW, THEREFORE, in consideration of the terms and provisions set forth herein, the benefits to be gained by the performance thereof and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the party hereby agrees as follows:

SECTION 1. *General.*

(a) *Formation.* Effective as of the date and time of filing of the Certificate of Formation in the office of the Secretary of State of the State of Delaware, the Company was formed as a limited liability company under the Delaware Limited Liability Company Act, 6 Del.C. § 18-101, *et. seq.*, as amended from time to time (the "Act"). Except as expressly provided herein, the rights and obligations of the Members (as defined in Section 1(h)) in connection with the regulation and management of the Company shall be governed by the Act.

(b) *Name.* The name of the Company shall be "Charter Fiberlink AZ - CCVII, LLC." The business of the Company shall be conducted under such name or any other name or names that the Manager (as defined in Section 4(a)(i) hereof) shall determine from time to time.

(c) *Registered Agent.* The address of the registered office of the Company in the State of Delaware shall be c/o Corporation Service Company, 2711 Centerville Road, Suite 400, Wilmington, Delaware 19808. The name and address of the registered agent for service of process on the Company in the State of Delaware shall be Corporation Service Company, 2711 Centerville Road, Suite 400,

Wilmington, Delaware 19808. The registered office or registered agent of the Company may be changed from time to time by the Manager.

(d) *Principal Office.* The principal place of business of the Company shall be at 12405 Powerscourt Drive, St. Louis, MO 63131. At any time, the Manager may change the location of the Company's principal place of business.

(e) *Term.* The term of the Company commenced on the date of the filing of the Certificate of Formation in the office of the Secretary of State of the State of Delaware, and the Company will have perpetual existence until dissolved and its affairs wound up in accordance with the provisions of this Agreement.

(f) *Certificate of Formation.* The execution of the Certificate of Formation by Janeen Domagalski, Authorized Person, and the filing thereof in the office of the Secretary of State of the State of Delaware are hereby ratified, confirmed and approved.

(g) *Qualification; Registration.* The Manager shall cause the Company to be qualified, formed or registered under assumed or fictitious name statutes or similar laws in any jurisdiction in which the Company transacts business and in which such qualification, formation or registration is required or desirable. The Manager, as an authorized person within the meaning of the Act, shall execute, deliver and file any certificates (and any amendments and/or restatements thereof) necessary for the Company to qualify to do business in a jurisdiction in which the Company may wish to conduct business.

(h) *Voting.* Each member of the Company (if there is only one member of the Company, the "Member"; or if there are more than one, the "Members") shall have one vote in respect of any vote, approval, consent or ratification of any action (a "Vote") for each one percentage point of Percentage Interest (as defined in Section 7) held by such Member (totaling 100 Votes for all Members) (any fraction of such a percentage point shall be entitled to an equivalent fraction of a Vote). Any vote, approval, consent or ratification as to any matter under the Act or this Agreement by a Member may be evidenced by such Member's execution of any document or agreement (including this Agreement or an amendment thereto) which would otherwise require as a precondition to its effectiveness such Vote, approval, consent or ratification of the Members.

SECTION 2. *Purposes.* The Company was formed for the object and purpose of, and the nature of the business to be conducted by the Company is, engaging in any lawful act or activity for which limited liability companies may be formed under the Act.

SECTION 3. *Powers.* The Company shall have all powers necessary, appropriate or incidental to the accomplishment of its purposes and all other powers conferred upon a limited liability company pursuant to the Act.

SECTION 4. *Management.*

(a) *Management by Manager.*

i) Charter, as the sole member of the Company, hereby elects Charter Communications, Inc., a Delaware corporation ("CCI"), or its successor-in-interest that acquires directly or indirectly substantially all of the assets or business of CCI, as the Company's manager (the "Manager"). CCI shall be the Manager until a simple majority of the Votes elects otherwise. No additional person may be elected as Manager without the approval of a simple majority of the Votes (for purposes of this Agreement, to the extent the context requires, the term "person" refers to both individuals and entities). Except as otherwise required by applicable law and as provided below with respect to the Board, the powers of the Company shall at all times be exercised by or under the authority of, and the business, property and affairs of the Company shall be managed by, or under the direction of, the Manager. The Manager is a "manager" of the Company within the meaning of the Act. Any person appointed as Manager shall accept its appointment by execution of a consent to this Agreement.

ii) The Manager shall be authorized to elect, remove or replace directors and officers of the Company, who shall have such authority with respect to the management of the business and affairs of the Company as set forth herein or as otherwise specified by the Manager in the resolution or resolutions pursuant to which such directors or officers were elected.

iii) Except as otherwise required by this Agreement or applicable law, the Manager shall be authorized to execute or endorse any check, draft, evidence of indebtedness, instrument, obligation, note, mortgage, contract, agreement, certificate or other document on behalf of the Company without the consent of any Member or other person..

iv) No annual or regular meetings of the Manager or the Members are required. The Manager may, by written consent, take any action which it is otherwise required or permitted to take at a meeting.

v) The Manager's duty of care in the discharge of its duties to the Company and the Members is limited to discharging its duties pursuant to this Agreement in good faith, with the care a director of a Delaware corporation would exercise under similar circumstances, in the manner it reasonably believes to be in the best interests of the Company and its Members.

vi) Except as required by the Act, no Manager shall be liable for the debts, liabilities and obligations of the Company, including without limitation any debts, liabilities and obligations under a judgment, decree or order of a court, solely by reason of being a manager of the Company.

(b) *Board of Directors.*

i) Notwithstanding paragraph (a) above, the Manager may delegate its power to manage the business of the Company to a board of natural persons designated as "directors" (the "Board") which, subject to the limitations set forth below, shall have the authority to exercise all such powers of the Company and do all such lawful acts and things as may be done by a manager of a limited liability company under the Act and as are not by statute, by the Certificate of Formation (as amended from time to time, the "Certificate"), or by this Agreement (including without limitation Section 4(c) hereof) directed or required to be exercised or done by the Manager. Except for the rights and duties that are assigned to officers of the Company, the rights and duties of the directors may not be assigned or delegated to any person. No action, authorization or approval of the Board shall be required, necessary or advisable for the taking of any action by the Company that has been approved by the Manager. In the event that any action of the Manager conflicts with any action of the Board, the action of the Manager shall control.

ii) Except as otherwise provided herein, directors shall possess and may exercise all the powers and privileges and shall have all of the obligations and duties to the Company and the Members granted to or imposed on directors of a corporation organized under the laws of the State of Delaware.

iii) The number of directors on the date hereof is one, which number may be changed from time to time by the Manager. The director as of the date hereof shall be as set forth on Exhibit A hereto, provided that Exhibit A need not be amended whenever the director(s) or his or her successors are changed in accordance with the terms of this Agreement.

iv) Each director shall be appointed by the Manager and shall serve in such capacity until the earlier of his resignation, removal (which may be with or without cause) or replacement by the Manager.

v) No director shall be entitled to any compensation for serving as a director. No fee shall be paid to any director for attendance at any meeting of the Board; provided, however, that the Company may reimburse directors for the actual reasonable costs incurred in such attendance.

(c) *Consent Required.*

i) None of the Members, Managers, directors, or officers of the Company shall:

- (1) do any act in contravention of this Agreement;
- (2) cause the Company to engage in any business not permitted by the Certificate or the terms of this Agreement;

(3) cause the Company to take any action that would make it impossible to carry on the usual course of business of the Company (except to the extent expressly provided for hereunder); or

(4) possess Company property or assign rights in Company property other than for Company purposes.

ii) One hundred percentage (100%) of the Votes shall be required to:

(1) issue limited liability company interests in the Company to any person;

(2) change or reorganize the Company into any other legal form;

(3) approve a merger or consolidation of the Company with another person;

(4) sell all or substantially all of the assets of the Company; or

(5) voluntarily dissolve the Company.

iii) In addition to any approval that may be required under Section 15(b) to the extent amendment of this Agreement is required for any of the following actions, the affirmative vote, approval, consent or ratification of the Manager shall be required to:

(1) alter the primary purposes of the Company as set forth in Section 2;

(2) issue limited liability company interests in the Company to any person;

(3) enter into or amend any agreement which provides for the management of the business or affairs of the Company by a person other than the Manager (and the Board);

(4) change or reorganize the Company into any other legal form;

(5) approve a merger or consolidation of the Company with another person;

(6) sell all or substantially all of the assets of the Company;

(7) operate the Company in such a manner that the Company becomes an "investment company" for purposes of the Investment Company Act of 1940;

(8) except as otherwise provided or contemplated herein, enter into any agreement to acquire property or services from any person who is a director or officer of the Company;

(9) settle any litigation or arbitration with any third party, any Member, or any affiliate of any Member, except for any litigation or arbitration brought or defended in the ordinary course of business where the present value of the total settlement amount or damages will not exceed \$5,000,000;

(10) materially change any of the tax reporting positions or elections of the Company;

(11) make or commit to any expenditures which, individually or in the aggregate, exceed or are reasonably expected to exceed the Company's total budget (as approved by the Manager) by the greater of 5% of such budget or Five Million Dollars (\$5,000,000);

(12) make or incur any secured or unsecured indebtedness which, individually or in the aggregate, exceeds Five Million Dollars (\$5,000,000), provided that this restriction shall not apply to (i) any refinancing of or amendment to existing indebtedness which does not increase total borrowing (including obligations under that certain Credit Agreement with Charter Communications Operating, LLC as the borrower, dated as of March 18, 1999, as amended and restated as of January 3, 2002 and as further amended and restated by the Second Amended and Restated Credit Agreement dated as of June 19, 2003 (the "Credit Agreement") and the Loan Documents (as defined in the Credit Agreement), all of which have been, and are hereby, ratified and confirmed), (ii) any indebtedness to (or guarantee of indebtedness of) any entity controlled by or under common control with the Company ("Intercompany Indebtedness"), (iii) the pledge of any assets to support any otherwise permissible indebtedness of the Company or any Intercompany Indebtedness or (iv) indebtedness necessary to finance a transaction or purchase approved by the Manager; or

(13) voluntarily dissolve the Company.

(d) *Board Meetings.*

i) *Regular Meetings.* Regular meetings of the Board may be held without notice at such time and at such place as shall from time to time be determined by the Board, but not less often than annually.

ii) *Special Meetings.* Special meetings of the Board may be called by the President or any director on twenty-four (24) hours' notice to each director; special meetings shall be called by the President or Secretary in like

manner and on like notice on the written request of Members holding a simple majority of the Votes. Notice of a special meeting may be given by facsimile. Attendance in person of a director at a meeting shall constitute a waiver of notice of that meeting, except when the director objects, at the beginning of the meeting, to the transaction of any business because the meeting is not duly called or convened.

iii) *Telephonic Meetings.* Directors may participate in any regular or special meeting of the Board, by means of conference telephone or similar communications equipment, by means of which all persons participating in the meeting can hear each other. Participation in a meeting pursuant to this Section 4(d)(iii) will constitute presence in person at such meeting.

iv) *Quorum.* At all meetings of the Board, a majority of the directors shall constitute a quorum for the transaction of business, and the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the Board, except as may be otherwise specifically provided by statute, the Certificate or this Agreement. If a quorum is not present at any meeting of the Board, the directors present thereat may adjourn the meeting from time to time until a quorum shall be present. Notice of such adjournment shall be given to any director not present at such meeting.

v) *Action Without Meeting.* Unless otherwise restricted by the Certificate or this Agreement, any action required or permitted to be taken at any meeting of the Board may be taken without a meeting if all directors consent thereto in writing and such written consent is filed with the minutes of proceedings of the Board.

(e) *Director's Duty of Care.* Each director's duty of care in the discharge of his or her duties to the Company and the Members is limited to discharging his duties pursuant to this Agreement in good faith, with the care a director of a Delaware corporation would exercise under similar circumstances, in the manner he or she reasonably believes to be in the best interests of the Company and its Members.

SECTION 5. *Officers.*

(a) *Officers.* The Company shall have such officers as may be necessary or desirable for the business of the Company. The officers may include a Chairman of the Board, a President, a Treasurer and a Secretary, and such other additional officers, including one or more Vice Presidents, Assistant Secretaries and Assistant Treasurers as the Manager, the Board, the Chairman of the Board, or the President may from time to time elect. Any two or more offices may be held by the same individual.

(b) *Election and Term.* The President, Treasurer and Secretary shall, and the Chairman of the Board may, be appointed by and shall hold office at the pleasure of the Manager or the Board. The Manager, the Board, or the President may each appoint such other officers and agents as such person shall deem

desirable, who shall hold office at the pleasure of the Manager, the Board, or the President, and who shall have such authority and shall perform such duties as from time to time shall, subject to the provisions of Section 5(d) hereof, be prescribed by the Manager, the Board, or the President.

(c) *Removal.* Any officer may be removed by the action of the Manager or the action of at least a majority of the directors then in office, with or without cause, for any reason or for no reason. Any officer other than the Chairman of the Board, the President, the Treasurer or the Secretary may also be removed by the Chairman of the Board or the President, with or without cause, for any reason or for no reason.

(d) *Duties and Authority of Officers.*

i) *President.* The President shall be the chief executive officer and (if no other person has been appointed as such) the chief operating officer of the Company; shall (unless the Chairman of the Board elects otherwise) preside at all meetings of the Members and Board; shall have general supervision and active management of the business and finances of the Company; and shall see that all orders and resolutions of the Board or the Manager are carried into effect; subject, however, to the right of the directors to delegate any specific powers to any other officer or officers. In the absence of direction by the Manager, Board, or the Chairman of the Board to the contrary, the President shall have the power to vote all securities held by the Company and to issue proxies therefor. In the absence or disability of the President, the Chairman of the Board (if any) or, if there is no Chairman of the Board, the most senior available officer appointed by the Manager or the Board shall perform the duties and exercise the powers of the President with the same force and effect as if performed by the President, and shall be subject to all restrictions imposed upon him.

ii) *Vice President.* Each Vice President, if any, shall perform such duties as shall be assigned to such person and shall exercise such powers as may be granted to such person by the Manager, the Board or by the President of the Company. In the absence of direction by the Manager, the Board or the President to the contrary, any Vice President shall have the power to vote all securities held by the Company and to issue proxies therefor.

iii) *Secretary.* The Secretary shall give, or cause to be given, a notice as required of all meetings of the Members and of the Board. The Secretary shall keep or cause to be kept, at the principal executive office of the Company or such other place as the Board may direct, a book of minutes of all meetings and actions of directors and Members. The minutes shall show the time and place of each meeting, whether regular or special (and, if special, how authorized and the notice given), the names of those present at Board meetings, the number of Votes present or represented at Members' meetings, and the proceedings thereof. The Secretary shall perform such other duties as may be prescribed from time to time by the Manager or the Board.

iv) *Treasurer.* The Treasurer shall have custody of the Company funds and securities and shall keep or cause to be kept full and accurate accounts of receipts and disbursements in books of the Company to be maintained for such purpose; shall deposit all moneys and other valuable effects of the Company in the name and to the credit of the Company in depositories designated by the Manager or the Board; and shall disburse the funds of the Company as may be ordered by the Manager or the Board.

v) *Chairman of the Board.* The Chairman of the Board, if any, shall perform such duties as shall be assigned, and shall exercise such powers as may be granted to him or her by the Manager or the Board.

vi) *Authority of Officers.* The officers, to the extent of their powers set forth in this Agreement or otherwise vested in them by action of the Manager or the Board not inconsistent with this Agreement, are agents of the Company for the purpose of the Company's business and the actions of the officers taken in accordance with such powers shall bind the Company.

SECTION 6. *Members.*

(a) *Members.* The Members of the Company shall be set forth on Exhibit B hereto as amended from time to time. At the date hereof, Charter is the sole Member, and it (or its predecessor) has heretofore contributed to the capital of the Company. Charter is not required to make any additional capital contribution to the Company; however, Charter may make additional capital contributions to the Company at any time in its sole discretion (for which its capital account balance shall be appropriately increased). Each Member shall have a capital account in the Company, the balance of which is to be determined in accordance with the principles of Treasury Regulation section 1.704-1(b)(2)(iv). The provisions of this Agreement, including this Section 6, are intended to benefit the Members and, to the fullest extent permitted by law, shall not be construed as conferring any benefit upon any creditor of the Company. Notwithstanding anything to the contrary in this Agreement, Charter shall not have any duty or obligation to any creditor of the Company to make any contribution to the Company.

(b) *Admission of Members.* Other persons may be admitted as Members from time to time pursuant to the provisions of this Agreement. If an admission of a new Member results in the Company having more than one Member, this Agreement shall be amended in accordance with the provisions of Section 15(b) to establish the rights and responsibilities of the Members and to govern their relationships.

(c) *Limited Liability.* Except as required by the Act, no Member shall be liable for the debts, liabilities and obligations of the Company, including without limitation any debts, liabilities and obligations of the Company under a judgment, decree or order of a court, solely by reason of being a member of the Company.

(d) *Competing Activities.* Notwithstanding any duty otherwise existing at law or in equity, (i) neither a Member nor a Manager of the Company, or any of their respective affiliates, partners, members, shareholders, directors, managers, officers or employees, shall be expressly or impliedly restricted or prohibited solely by virtue of this Agreement or the relationships created hereby from engaging in other activities or business ventures of any kind or character whatsoever and (ii) except as otherwise agreed in writing or by written Company policy, each Member and Manager of the Company, and their respective affiliates, partners, members, shareholders, directors, managers, officers and employees, shall have the right to conduct, or to possess a direct or indirect ownership interest in, activities and business ventures of every type and description, including activities and business ventures in direct competition with the Company.

(e) *Bankruptcy.* Notwithstanding any other provision of this Agreement, the bankruptcy (as defined in the Act) of a Member shall not cause the Member to cease to be a member of the Company and, upon the occurrence of such an event, the Company shall continue without dissolution.

SECTION 7. *Percentage Interests.* For purposes of this Agreement, "Percentage Interest" shall mean with respect to any Members as of any date the proportion (expressed as a percentage) of the respective capital account balance of such Member to the capital account balances of all Members. So long as Charter is the sole member of the Company, Charter's Percentage Interest shall be 100 percent.

SECTION 8. *Distributions.* The Company may from time to time distribute to the Members such amounts in cash and other assets as shall be determined by the Members acting by simple majority of the Votes. Each such distribution (other than liquidating distributions) shall be divided among the Members in accordance with their respective Percentage Interests. Liquidating distributions shall be made to the Members in accordance with their respective positive capital account balances. Each Member shall be entitled to look solely to the assets of the Company for the return of such Member's positive capital account balance. Notwithstanding that the assets of the Company remaining after payment of or due provision for all debts, liabilities, and obligations of the Company may be insufficient to return the capital contributions or share of the Company's profits reflected in such Member's positive capital account balance, a Member shall have no recourse against the Company or any other Member. Notwithstanding any provision to the contrary contained in this Agreement, the Company shall not be required to make a distribution to the Members on account of their interest in the Company if such distribution would violate the Act or any other applicable law.

SECTION 9. *Allocations.* The profits and losses of the Company shall be allocated to the Members in accordance with their Percentage Interests from time to time.

SECTION 10. *Dissolution; Winding Up.*

(a) *Dissolution.* The Company shall be dissolved upon (i) the adoption of a plan of dissolution by the Members acting by unanimity of the Votes and the approval of the Manager or (ii) the occurrence of any other event required to cause the dissolution of the Company under the Act.

(b) *Effective Date of Dissolution.* Any dissolution of the Company shall be effective as of the date on which the event occurs giving rise to such dissolution, but the Company shall not terminate unless and until all its affairs have been wound up and its assets distributed in accordance with the provisions of the Act and the Certificate is cancelled.

(c) *Winding Up.* Upon dissolution of the Company, the Company shall continue solely for the purposes of winding up its business and affairs as soon as reasonably practicable. Promptly after the dissolution of the Company, the Manager shall immediately commence to wind up the affairs of the Company in accordance with the provisions of this Agreement and the Act. In winding up the business and affairs of the Company, the Manager may, to the fullest extent permitted by law, take any and all actions that it determines in its sole discretion to be in the best interests of the Members, including, but not limited to, any actions relating to (i) causing written notice by registered or certified mail of the Company's intention to dissolve to be mailed to each known creditor of and claimant against the Company, (ii) the payment, settlement or compromise of existing claims against the Company, (iii) the making of reasonable provisions for payment of contingent claims against the Company and (iv) the sale or disposition of the properties and assets of the Company. It is expressly understood and agreed that a reasonable time shall be allowed for the orderly liquidation of the assets of the Company and the satisfaction of claims against the Company so as to enable the Manager to minimize the losses that may result from a liquidation.

SECTION 11. *Transfer.* At such time as the Company has more than one Member, no Member shall transfer (whether by sale, assignment, gift, pledge, hypothecation, mortgage, exchange or otherwise) all or any part of his, her or its limited liability company interest in the Company to any other person without the prior written consent of each of the other Members; *provided, however*, that this Section 11 shall not restrict the ability of any Member to transfer (at any time) (i) all or a portion of its limited liability company interest in the Company to another Member or (ii) pursuant to the Loan Documents (as defined in the Credit Agreement). Upon the transfer of a Member's limited liability company interest, the Manager shall provide notice of such transfer to each of the other Members and shall amend Exhibit B hereto to reflect the transfer.

SECTION 12. *Admission of Additional Members.* The admission of additional or substitute Members to the Company shall be accomplished by the amendment of this Agreement, including Exhibit B, in accordance with the provisions of Section 15(b), pursuant to which amendment each additional or substitute Member shall agree to become bound by this Agreement.

SECTION 13. *Tax Matters.* As of the date of this Agreement, the Company is a single-owner entity for United States federal tax purposes. So long as the Company is a single-owner entity for federal income tax purposes, it is intended that for federal, state and local income tax purposes the Company be disregarded as an entity separate from its owner for income tax purposes and its activities be treated as a division of such owner. In the event that the Company has two or more Members for federal income tax purposes, it is intended that (i) the Company shall be treated as a partnership for federal, state and local income tax purposes, and the Members shall not take any position or make any election, in a tax return or otherwise, inconsistent therewith and (ii) this Agreement will be amended to provide for appropriate book and tax allocations pursuant to subchapter K of the Internal Revenue Code of 1986, as amended.

SECTION 14. *Exculpation and Indemnification.*

(a) *Exculpation.* Neither the Members, the Manager, the directors of the Company, the officers of the Company, their respective affiliates, nor any person who at any time shall serve, or shall have served, as a director, officer, employee or other agent of any such Members, Manager, directors, officers, or affiliates and who, in such capacity, shall engage, or shall have engaged, in activities on behalf of the Company (a "Specified Agent") shall be liable, in damages or otherwise, to the Company or to any Member for, and neither the Company nor any Member shall take any action against such Members, Manager, directors, officers, affiliates or Specified Agent, in respect of any loss which arises out of any acts or omissions performed or omitted by such person pursuant to the authority granted by this Agreement, or otherwise performed on behalf of the Company, if such Member, Manager, director, officer, affiliate, or Specified Agent, as applicable, in good faith, determined that such course of conduct was in the best interests of the Company and within the scope of authority conferred on such person by this Agreement or approved by the Manager. Each Member shall look solely to the assets of the Company for return of such Member's investment, and if the property of the Company remaining after the discharge of the debts and liabilities of the Company is insufficient to return such investment, each Member shall have no recourse against the Company, the other Members or their affiliates, except as expressly provided herein; provided, however, that the foregoing shall not relieve any Member or the Manager of any fiduciary duty, duty of care or duty of fair dealing to the Members that it may have hereunder or under applicable law.

(b) *Indemnification.* In any threatened, pending or completed claim, action, suit or proceeding to which a Member, a Manager, a director of the Company, any officer of the Company, their respective affiliates, or any Specified Agent was or is a party or is threatened to be made a party by reason of the fact that such person is or was engaged in activities on behalf of the Company, including without limitation any action or proceeding brought under the Securities Act of 1933, as amended, against a Member, a Manager, a director of the Company, any officer of the Company, their respective affiliates, or any Specified Agent relating to the Company, the Company shall to the fullest extent permitted by law indemnify and hold harmless the Members, Manager, directors of the Company, officers of the

Company, their respective affiliates, and any such Specified Agents against losses, damages, expenses (including attorneys' fees), judgments and amounts paid in settlement actually and reasonably incurred by or in connection with such claim, action, suit or proceeding; provided, however, that none of the Members, Managers, directors of the Company, officers of the Company, their respective affiliates or any Specified Agent shall be indemnified for actions constituting bad faith, willful misconduct, or fraud. Any act or omission by any such Member, Manager, director, officer, or any such affiliate or Specified Agent, if done in reliance upon the opinion of independent legal counsel or public accountants selected with reasonable care by such Member, Manager, director, officer, or any such affiliate or Specified Agent, as applicable, shall not constitute bad faith, willful misconduct, or fraud on the part of such Member, Manager, director, officer, or any such affiliate or Specified Agent.

(c) *No Presumption.* The termination of any claim, action, suit or proceeding by judgment, order or settlement shall not, of itself, create a presumption that any act or failure to act by a Member, a Manager, a director of the Company, any officer of the Company, their respective affiliates or any Specified Agent constituted bad faith, willful misconduct or fraud under this Agreement.

(d) *Limitation on Indemnification.* Any such indemnification under this Section 14 shall be recoverable only out of the assets of the Company and not from the Members.

(e) *Reliance on the Agreement.* To the extent that, at law or in equity, a Member, Manager, director of the Company, officer of the Company or any Specified Agent has duties (including fiduciary duties) and liabilities relating thereto to the Company or to any Member or other person bound by this Agreement, such Member, Manager, director, officer or any Specified Agent acting under this Agreement shall not be liable to the Company or to any Member or other person bound by this Agreement for its good faith reliance on the provisions of this Agreement. The provisions of this Agreement, to the extent that they restrict the duties and liabilities of a Member, Manager, director of the Company, officer of the Company or any Specified Agent otherwise existing at law or in equity, are agreed by the parties hereto to replace such other duties and liabilities of such Member, Manager, director or officer or any Specified Agent.

SECTION 15. Miscellaneous.

(a) *Certificate of Limited Liability Company Interest.* A Member's limited liability company interest may be evidenced by a certificate of limited liability company interest executed by the Manager or an officer in such form as the Manager may approve; provided that such certificate of limited liability company interest shall not bear a legend that causes such limited liability company interest to constitute a security under Article 8 (including Section 8-103) of the Uniform Commercial Code as enacted and in effect in the State of Delaware, or the corresponding statute of any other applicable jurisdiction.

(b) *Amendment.* The terms and provisions set forth in this Agreement may be amended, and compliance with any term or provision set forth herein may be waived, only by a written instrument executed by each Member. No failure or delay on the part of any Member in exercising any right, power or privilege granted hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right, power or privilege preclude any other or further exercise thereof or the exercise of any other right, power or privilege granted hereunder.

(c) *Binding Effect.* This Agreement shall be binding upon and inure to the benefit of the Members and their respective successors and assigns.

(d) *Governing Law.* This Agreement shall be governed by, and construed in accordance with, the laws of the State of Delaware, without regard to any conflicts of law principles that would require the application of the laws of any other jurisdiction.

(e) *Severability.* In the event that any provision contained in this Agreement shall be held to be invalid, illegal or unenforceable for any reason, the invalidity, illegality or unenforceability thereof shall not affect any other provision hereof.

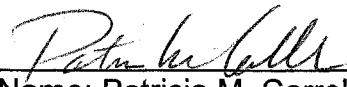
(f) *Multiple Counterparts.* This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

(g) *Entire Agreement.* This Agreement constitutes the entire agreement of the parties hereto with respect to the subject matter hereof and supercedes and replaces any prior or contemporaneous understandings.

(h) *Relationship between the Agreement and the Act.* Regardless of whether any provision of this Agreement specifically refers to particular Default Rules (as defined below), (i) if any provision of this Agreement conflicts with a Default Rule, the provision of this Agreement controls and the Default Rule is modified or negated accordingly, and (ii) if it is necessary to construe a Default Rule as modified or negated in order to effectuate any provision of this Agreement, the Default Rule is modified or negated accordingly. For purposes of this Section 15(i), "Default Rule" shall mean a rule stated in the Act which applies except to the extent it may be negated or modified through the provisions of a limited liability company's Limited Liability Company Agreement.

IN WITNESS WHEREOF, the party has caused this Agreement to be duly executed on the date first above written.

CC VII FIBERLINK, LLC, a Delaware
limited liability company

By: 
Name: Patricia M. Carroll
Title: Vice President

Accepting its appointment as the Company's Manager subject to the provisions of
this Agreement:

CHARTER COMMUNICATIONS, INC., a
Delaware corporation

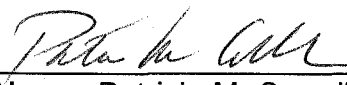
By: 
Name: Patricia M. Carroll
Title: Vice President

EXHIBIT A

Director

Thomas A. Cullen

EXHIBIT B

Member

CC VII Fiberlink, LLC

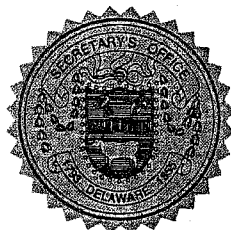
100%

Delaware

PAGE 1

The First State

I, HARRIET SMITH WINDSOR, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF FORMATION OF "CHARTER FIBERLINK AZ-CCVII, LLC", FILED IN THIS OFFICE ON THE TWENTIETH DAY OF JANUARY, A.D. 2004, AT 10:41 O'CLOCK A.M.



Harriet Smith Windsor
Harriet Smith Windsor, Secretary of State

3754392 8100

AUTHENTICATION: 2878208

040038046


DATE: 01-20-04

State of Delaware
Secretary of State
Division of Corporations
Delivered 10:49 AM 01/20/2004
FILED 10:41 AM 01/20/2004
SRV 040038046 - 3754392 FILE

CERTIFICATE OF FORMATION
OF
CHARTER FIBERLINK AZ-CCVII, LLC

1. The name of the limited liability company is Charter Fiberlink AZ-CCVII, LLC.
2. The address of its registered office in the State of Delaware is 2711 Centerville Road, Suite 400, Wilmington, Delaware, 19808, County of New Castle. The name of its registered agent at such address is Corporation Service Company.

IN WITNESS WHEREOF, the undersigned has executed this Certificate of Formation of Charter Fiberlink AZ-CCVII, LLC this 17th day of January 2004.


Janeen G. Domagalski
Authorized Person

ATTACHMENT "B"

Applicant's proposed local exchange and interexchange tariffs are attached hereto.

- 1 Proposed Rates and Charges for each service offered (reference by Tariff page number).

Tariff No. 1, Sheet 27; Tariff No. 2, Sheet 27.

- 2 Tariff Maximum Rate and Prices to be charged (reference by Tariff page number).

Tariff No. 1, Sheet 27; Tariff No. 2, Sheet 27.

Terms and Conditions Applicable to provision of Service (reference by Tariff page number).

Tariff No. 1, Sheets 11 *et seq.*; Tariff No. 2, Sheets 11 *et seq.*.

- 4 Deposits, Advances, and/or Prepayments Applicable to provision of Service (reference by Tariff page number).

Tariff No. 1, Sheet 20; Tariff No. 2, Sheet 20.

- 5 The proposed fee that will be charged for returned checks (reference by Tariff page number).

Tariff No. 1, Sheet 28; Tariff No. 2, Sheet 28.

Charter Fiberlink AZ - CCVII, LLC

**12405 POWERSCOURT DRIVE
ST. LOUIS, MISSOURI 63131-3674**

COMPETITIVE LOCAL EXCHANGE TELECOMMUNICATIONS SERVICES TARIFF

This tariff contains the description, regulations and rates for the furnishing of services and facilities for telecommunications services provided by Charter Fiberlink AZ - CCVII, LLC with principal offices at Charter Fiberlink AZ - CCVII, LLC, 12405 Powerscourt Drive, St. Louis, Missouri 63131-3674. This tariff applies for service furnished within the State of Arizona. This tariff is on file with the Arizona Corporation Commission and copies may be inspected during normal business hours.

Issued: _____

Effective: _____

**By: Carrie L. Cox
Director of Legal and Regulatory Affairs
Charter Fiberlink AZ - CCVII, LLC
12405 Powerscourt Drive
St. Louis, Missouri 63131-3674**

CHECK SHEET

The sheets listed below, which are inclusive of this tariff, are effective as of the date shown at the bottom of the respective sheet(s). Original and revised sheets as named below comprise all changes from the original tariff and are currently in effect as of the date indicated below.

<u>Sheet</u>	<u>Revision</u>	<u>Sheet</u>	<u>Revision</u>
1	Original	17	Original
2	Original	18	Original
3	Original	19	Original
4	Original	20	Original
5	Original	21	Original
6	Original	22	Original
7	Original	23	Original
8	Original	24	Original
9	Original	25	Original
10	Original	26	Original
11	Original	27	Original
12	Original	28	Original
13	Original		
14	Original		
15	Original		
16	Original		

* = New/Revised this issue

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By: Carrie L. Cox
Director of Legal and Regulatory Affairs
Charter Fiberlink AZ - CCVII, LLC
12405 Powerscourt Drive
St. Louis, Missouri 63131-3674

SYMBOLS

The following are the only symbols used for the purposes indicated below:

- (D) Delete or Discontinue
- (I) Change Resulting in an Increase to a Customer's Bill
- (M) Moved from Another Tariff Location
- (N) New
- (R) Change Resulting in a Reduction to a Customer's Bill
- (T) Change in Text or Regulation but no Change in Rate or Charge

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Charter Fiberlink AZ - CCVII, LLC
12405 Powerscourt Drive
St. Louis, Missouri 63131-3674

TARIFF FORMAT

- A. **Sheet Numbering** - Page numbers appear in the upper right corner of the sheet. Pages are numbered sequentially. However, new pages are occasionally added to the tariff. When a new page is added between existing pages with whole numbers, a decimal is added. For example, a new page added between pages 34 and 35 would be page 34.1.
- B. **Sheet Revision Numbering** - Revision numbers also appear in the upper right corner of the page. These numbers are used to determine the most current page version on file with the Commission. For example, 4th Revised Page 34 cancels the 3rd Revised Page 34. Consult the check sheet for the page currently in effect.
- C. **Paragraph Numbering Sequence** - There are nine levels of paragraph coding. Each level of coding is subservient to its next higher level:
- 2
 - 2.1
 - 2.1.1
 - 2.1.1.A
 - 2.1.1.A.1
 - 2.1.1.A.1.(a)
 - 2.1.1.A.1.(a).I
 - 2.1.1.A.1.(a).I.(i)
 - 2.1.1.A.1.(a).I.(i).(1)
- D. **Check Sheet** - When a tariff is filed with the Commission, an updated check sheet accompanies the tariff filing. The check sheet lists the tariff pages, with a cross reference to the current revision number. When new sheets are added, the check sheet is changed to reflect the revision. All revisions made in a given filing are designated by an asterisk (*). There will be no other symbols used on this sheet if these are the only changes made. The tariff user should refer to the latest check sheet to find out if a particular page is the most current on file with the Commission.

Issued: _____**Effective:** _____

By: Carrie L. Cox
Director of Legal and Regulatory Affairs
Charter Fiberlink AZ - CCVII, LLC
12405 Powerscourt Drive
St. Louis, Missouri 63131-3674

APPLICATION OF TARIFF

This tariff sets forth the service offerings, rates and terms and conditions of service applicable to the furnishing of intrastate local exchange telecommunications services by Charter Fiberlink AZ - CCVII, LLC ("Company") to Customers within the State of Arizona.

Issued: _____

Effective: _____

By: Carrie L. Cox
Director of Legal and Regulatory Affairs
Charter Fiberlink AZ - CCVII, LLC
12405 Powerscourt Drive
St. Louis, Missouri 63131-3674

SECTION 1 - TECHNICAL TERMS AND ABBREVIATIONS**1.1 Definitions**

Busy Hour - The two consecutive half hours during which the greatest volume of traffic is handled.

Call - A completed connection between the Calling and Called parties.

Calling Station - The telephone number from which a Call originates.

Called Station - The telephone number called.

Carrier Customer - A carrier that orders exchange access or retail services from the Company.

Commission - The Arizona Corporation Commission.

Company or Carrier - Charter Fiberlink AZ - CCVII, LLC, unless specifically stated otherwise.

Customer - A person, firm, corporation, partnership or other entity, in whose name the telephone number of the Calling Station is registered with the underlying local exchange company. The Customer is responsible for payment of charges to the Company and compliance with all terms and conditions of this tariff.

Day - The period of time from 8:00 a.m. to (but not including) 5:00 p.m., Monday through Friday, as measured by local time at the location from which the Call is originated.

Disconnect - To render inoperable or to disable circuitry thus preventing outgoing and incoming communications service.

DS1 - Digital Signal, level 1. Capable of transmitting data at 1.544 Mbps.

DS3 - Digital Signal, level 3. Capable of transmitting data at 44.736 Mbps.

Evening - The period of time from 5:00 p.m. to (but not including) 11:00 p.m., Sunday through Friday and any time during a Holiday, as measured by local time at the location from which the Call is originated.

Gbps - One thousand million bits per second.

Incomplete - Any Call where voice transmission between the Calling and Called station is not established.

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By: Carrie L. Cox
Director of Legal and Regulatory Affairs
Charter Fiberlink AZ - CCVII, LLC
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SECTION 1 - TECHNICAL TERMS AND ABBREVIATIONS (Cont'd)**1.1 Definitions (Cont'd)**

Holiday - For the purposes of this tariff recognized holidays are New Year's Day, Memorial Day, Independence Day, Labor Day, Thanksgiving Day, and Christmas Day.

Mbps - One million bits per second.

Message - A completed telephone call by a Customer or User.

Normal Business Hours - The hours of 8:00 a.m. to 5:00 p.m., Monday through Friday, excluding holidays.

OC3 - Optical Carrier, level 3. A SONET channel capable of transmitting data at 155.52 Mbps.

OC12 - Optical Carrier, level 12. A SONET channel capable of transmitting data at 622.08 Mbps.

OC48 - Optical Carrier, level 48. A SONET channel capable of transmitting data at 2.488 Gbps.

Premises - The space occupied by an individual Customer in a building, in adjoining buildings occupied entirely by that Customer, or on contiguous property occupied by the Customer separated only by a public thoroughfare, a railroad right of way, or a natural barrier.

Rate - Money, charge, fee or other recurring assessment billed to Customers for services or equipment.

State - Arizona.

Terminal Equipment - Telephone instruments, including pay telephone equipment, the common equipment of large and small key and PBX systems and other devices and apparatus, and associated wiring, which are intended to be connected electrically, acoustically, or inductively to the telecommunication system.

User or End User - Customer or any authorized person or entity that utilizes the Company's services.

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Director of Legal and Regulatory Affairs
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SECTION 1 – TECHNICAL TERMS AND ABBREVIATIONS (Cont'd)

1.2 Abbreviations

CLEC – Competitive Local Exchange Carrier

CO – Central Office

CPE – Customer Premises Equipment

DS1 – Digital Signal, Level 1

DS3 – Digital Signal, Level 3

ILEC – Incumbent Local Exchange Carrier

NPA – Numbering Plan Area (Area Code)

OC3 – Optical Carrier, Level 3

OC12 – Optical Carrier, Level 12

OC48 – Optical Carrier, Level 48

PBX – Private Branch Exchange

PIC – Primary or Preferred Interexchange Carrier

POP – Point of Presence

V&H - Vertical and Horizontal Coordinates

Issued: _____

Effective: _____

By: Carrie L. Cox
Director of Legal and Regulatory Affairs
Charter Fiberlink AZ - CCVII, LLC
12405 Powerscourt Drive
St. Louis, Missouri 63131-3674

SECTION 2 - RULES AND REGULATIONS**2.1 Undertaking of the Company**

- 2.1.1 The Company provides telecommunications services to business and carrier Customers.
- 2.1.2 The Company installs, operates and maintains the communications services provided herein in accordance with the terms and conditions set forth in this tariff. When authorized by the Customer, the Company may act as the Customer's agent for ordering access connection facilities provided by other carriers or entities to allow connection of a Customer's location to the Company's network. The Customer shall be responsible for all charges due for such service arrangements.
- 2.1.3 The Company's services are provided on a monthly basis, unless otherwise stated in this tariff. Services are available twenty-four (24) hours per day, seven (7) days per week.

2.2 Limitations of Service

- 2.2.1 Service is offered subject to the availability of facilities and provisions of this tariff.
- 2.2.2 Service is furnished to the User for any lawful purpose. Service shall not be used for any unlawful purpose, nor used in such a manner as to interfere unreasonably with the use of service by any other Users.
- 2.2.3 The use of the Company's services without payment for service or attempting to avoid payment for service by fraudulent means or devices, false or invalid numbers, or false calling or credit cards is prohibited.
- 2.2.4 The Company's services may be denied for nonpayment of charges or for other violations of the terms and conditions set forth in this tariff.
- 2.2.5 The use of the Company's services to make Calls which might reasonably be expected to frighten, abuse, torment, or harass another is prohibited.

Issued: _____**Effective:** _____

By: Carrie L. Cox
Director of Legal and Regulatory Affairs
Charter Fiberlink AZ - CCVII, LLC
12405 Powerscourt Drive
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SECTION 2 - RULES AND REGULATIONS (Cont'd)**2.2 Limitations of Service (Cont'd)**

- 2.2.6 Service temporarily may be refused or limited because of system capacity limitations.
- 2.2.7 Service is subject to transmission limitations caused by natural (including atmospheric, geographic or topographic) or artificial conditions adversely affecting transmission.
- 2.2.8 Service to any or all Customers may be temporarily interrupted or curtailed due to equipment modifications, upgrades, relocations, repairs and similar activities necessary for proper or improved operations.
- 2.2.9 The Company reserves the right to discontinue furnishing service where the Customer is using the service in violation of the law or the provisions of this tariff.

2.3 Limitations of Liability

- 2.3.1 Because the Company has no control of communications content transmitted over its system, and because of the possibility of errors incident to the provision and use of its service, service furnished by the Company is subject to the terms, conditions and limitations herein specified.
- 2.3.2 The Company is not liable to Users for interruptions in service except as set forth in Section 2.5 of this tariff.
- 2.3.3 The liability of the Company for errors in billing that result in overpayment by the Customer shall be limited, unless otherwise ordered by the Commission, to a credit equal to the dollar amount erroneously billed or, in the event that payment has been made and service has been discontinued, to a refund of the amount erroneously billed.

Issued: _____**Effective:** _____

By: Carrie L. Cox
Director of Legal and Regulatory Affairs
Charter Fiberlink AZ - CCVII, LLC
12405 Powerscourt Drive
St. Louis, Missouri 63131-3674

SECTION 2 - RULES AND REGULATIONS (Cont'd)

2.3 Limitations of Liability (Cont'd)

2.3.4 The Company shall not be liable for and the User shall indemnify and hold the Company harmless against any claims for loss or damages involving:

2.3.4.A Any act or omission of: (i) the User; or (ii) any other entity furnishing service, equipment or facilities for use in conjunction with services or facilities provided by the Company;

2.3.4.B Interruptions or delays in transmission, or errors or defects in transmission, or failure to transmit when caused by or as a result of acts of God, fire, flood or other catastrophes, war, riots, national emergencies, government or military authorities, strikes, lock-outs, work stoppages or other labor difficulties, or causes beyond the Company's control;

2.3.4.C Any unlawful or unauthorized use of the Company's facilities and services;

2.3.4.D Libel, slander or infringement of copyright arising directly or indirectly from content transmitted over facilities provided by the Company;

2.3.4.E Infringement of patents arising from combining apparatus and systems of the User with facilities provided by the Company;

2.3.4.F Claims arising out of any act or omission of the User in connection with service provided by the Company.

2.3.4.G Breach in the privacy or security of communications transmitted over the Company's facilities;

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SECTION 2 - RULES AND REGULATIONS (Cont'd)**2.3 Limitations of Liability (Cont'd)****2.3.4 (Cont'd)**

2.3.4.H Changes in any of the facilities, operations or procedures of the Company that: (1) render any equipment, facilities or services provided or utilized by the User obsolete; (2) require modification or alteration of such equipment, facilities or services; or (3) otherwise affect use or performance of such equipment, facilities or services except where reasonable notice is required by the Company and is not provided to the Customer.

2.3.4.I Defacement of or damage to the Customer's Premises or personal property resulting from the furnishing of services or equipment on such Premises or the installation or removal thereof, unless such defacement is caused by negligence or the willful misconduct of the Company's agents or employees.

2.3.4.J Any wrongful act of a Company employee where such act is not authorized by the Company and is not within the scope of the employee's responsibilities for the Company;

2.3.4.K Any noncompleted calls due to network busy conditions; and

2.3.4.L Any calls not actually attempted to be completed during any period that service is unavailable.

2.3.5 The User shall reimburse the Company for all costs, expenses and fees (including reasonable attorneys' fees and costs) incurred by the Company in its defense against claims set forth in Section 2.3.4.

2.3.6 The Company assumes no responsibility for the availability or performance of any facilities under the control of other entities that are used to provide service to the User, even if the Company has acted as the User's agent in arranging for such facilities or services.

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SECTION 2 - RULES AND REGULATIONS (Cont'd)**2.3 Limitations of Liability (Cont'd)**

- 2.3.7 Any claim against the Company shall be deemed waived unless presented in writing to the Company within thirty (30) days after the date of the occurrence that gave rise to the claim.
- 2.3.8 With respect to the services provided pursuant to this tariff, the Company makes no representations or warranties, express or implied, either in fact or by operation of law, statutory or otherwise, including, but not limited to, warranties of title or implied warranties of merchantability or fitness for a particular purpose, except those expressly set forth in this tariff. The Company does not authorize anyone to make a warranty or representation of any kind on its behalf and the User should not rely on any such statement.
- 2.3.9 Any liability of the Company for loss or damages arising out of mistakes, omissions, interruptions, delays, errors or defects in the service, the transmission of the service, or failures or defects in facilities furnished by the Company, occurring in the course of furnishing service shall in no event exceed an amount equivalent to the proportionate fixed monthly charge to the Customer for service, during the period of time in which such mistakes, omissions, interruptions, delays, errors or defects in the service, its transmission or failure or defect in facilities furnished by the Company occurred.

2.4 Responsibilities of the Customer

- 2.4.1 The Customer is responsible for placing any necessary orders, complying with tariff regulations and ensuring that Users comply with tariff regulations. The Customer shall ensure compliance with any applicable laws, regulations, orders or other requirements of any governmental entity relating to services provided by the Company to the Customer or made available by the Customer to another User. The Customer also is responsible for the payment of charges for all Calls originated at the Customer's numbers which are not collect, third party, calling card, or credit card Calls.

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By: Carrie L. Cox
Director of Legal and Regulatory Affairs
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SECTION 2 - RULES AND REGULATIONS (Cont'd)**2.4 Responsibilities of the Customer (Cont'd)**

- 2.4.2 The Customer is responsible for charges incurred for special construction and/or special facilities which the Customer requests and which are ordered by the Company on the Customer's behalf.
- 2.4.3 If required for the provisioning of the Company's services, the Customer must provide the Company, free of charge, with any necessary equipment space, supporting structure, conduit and electrical power.
- 2.4.4 The Customer is responsible for arranging access to its Premises at times mutually agreeable to the Company and the Customer when required for Company personnel to install, repair, maintain, program, inspect or remove equipment associated with the provision of the Company's services.
- 2.4.5 The Customer must pay the Company for replacement or repair of damage to the Company's equipment or facilities caused by negligent or improper use on the part of the Customer, Users, or others.
- 2.4.6 The Customer must indemnify the Company for the theft of any Company equipment or facilities installed at the Customer's Premises.
- 2.4.7 The Customer agrees, except where the events, incidents or eventualities set forth in this sentence are the result of the Company's gross negligence or willful misconduct, to release, indemnify and hold harmless the Company against any and all loss, claims, demands, suits or other action or any liability whatsoever, whether suffered, made, instituted or asserted by the Customer or by any other party or person, for any personal injury to or death of any person or persons, or for any loss of or damage to any property, whether owned by the Customer or others. The Customer shall reimburse the Company for all costs, expenses and fees (including reasonable attorneys' fees and costs) incurred by the Company in its defense against such actions.

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Director of Legal and Regulatory Affairs
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SECTION 2 - RULES AND REGULATIONS (Cont'd)**2.5 Allowances for Interruptions in Service****2.5.1 General**

- 2.5.1.A A service is interrupted when it becomes unusable to the User, e.g., the User is unable to transmit or receive communications due to the failure of a component furnished by the Company under this tariff.
- 2.5.1.B An interruption period begins when the User reports a service, facility or circuit to be inoperative and releases it for testing and repair. An interruption period ends when the service, facility or circuit is operative.
- 2.5.1.C If the User reports a service, facility or circuit to be inoperative but declines to release it for testing and repair, the service, facility or circuit is considered to be impaired but not interrupted. No credit allowances will be made for a service facility or circuit considered by the Company to be impaired.

2.5.2 Application of Credits for Interrupted Services

- 2.5.2.A At the Customer's request, a credit allowance for a continuous interruption of service for more than twenty-four (24) hours will be made in an amount to be determined by the Company on a case-by-case basis.
- 2.5.2.B Any such interruption will be measured from the time it is reported to or detected by the Company, whichever occurs first.
- 2.5.2.C In the event the User is affected by such interruption for a period of less than twenty-four (24) hours, no adjustment will be made. No adjustments will be earned by accumulating non-continuous periods of interruption.
- 2.5.2.D When an interruption exceeds twenty-four (24) hours, the length of the interruption will be measured in twenty-four (24) hour days. A fraction of a day consisting of less than twelve (12) hours will not be credited and a period of twelve (12) hours or more will be considered an additional day.

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12405 Powerscourt Drive
St. Louis, Missouri 63131-3674

SECTION 2 - RULES AND REGULATIONS (Cont'd)

2.5 Allowances for Interruptions in Service (Cont'd)

2.5.3 Limitations on Allowances

2.5.3.A No credit allowance will be made for any interruption of service:

- 2.5.3.A.1 due to the negligence of, or noncompliance with the provisions of this tariff by, any person or entity other than the Company, including but not limited to the Customer or other entities or carriers connected to the service of the Company;
- 2.5.3.A.2 due to the failure of power, equipment, systems or services not provided by the Company;
- 2.5.3.A.3 due to circumstances or causes beyond the control of the Company;
- 2.5.3.A.4 during any period in which the Company is not given full and free access to the Customer's or Company's facilities and equipment for the purpose of investigating and correcting the interruption;
- 2.5.3.A.5 during any period in which the User continues to use the service on an impaired basis;
- 2.5.3.A.6 during any period in which the Customer has released service to the Company for maintenance purposes or for implementation of a Customer order for a change in service arrangements;
- 2.5.3.A.7 that occurs or continues due to the Customer's failure to authorize replacement of any element of special construction; and
- 2.5.3.A.8 that was not reported to the Company within thirty (30) days of the date that service was affected.

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Director of Legal and Regulatory Affairs
Charter Fiberlink AZ - CCVII, LLC
12405 Powerscourt Drive
St. Louis, Missouri 63131-3674

SECTION 2 - RULES AND REGULATIONS (Cont'd)**2.6 Termination of Service**

- 2.6.1 A Customer may terminate service, with or without cause, by giving the Company notice either verbally or in writing. If the Company has a term contract, early termination charges may apply. The Company may terminate service with cause by giving the Customer five (5) business days' written notice. The Company may terminate service without notice in the event of the Customer maintaining and/or operating its own equipment in a manner that may cause imminent harm to the Company's equipment.
- 2.6.2 The Customer is responsible for all charges incurred to the Calling Station regardless of which party terminates the service. The Customer shall reimburse the Company for all costs, expenses and fees (including reasonable attorneys' fees and costs) incurred by the Company in collecting such charges.

Issued: _____**Effective:** _____

By: Carrie L. Cox
Director of Legal and Regulatory Affairs
Charter Fiberlink AZ - CCVII, LLC
12405 Powerscourt Drive
St. Louis, Missouri 63131-3674

SECTION 2 - RULES AND REGULATIONS (Cont'd)**2.7 Payment of Charges**

- 2.7.1 The Customer is responsible for payment of all charges for service furnished to the User.
- 2.7.2 The Company reserves the right to assess late payment charges for Customers whose account(s) carries principal owing from the prior billing period. Any charges not paid in full by the due date indicated on the billing statement may be subject to a late fee of 1.5% per month.
- 2.7.3 Recurring monthly charges may be invoiced one month in advance. Invoicing cycles are approximately 30 days in length.
- 2.7.4 Customers must notify the Company either verbally or in writing of any disputed charges within thirty (30) days of the billing date, otherwise all charges on the invoice will be deemed accepted. All charges remain due and payable at the due date, although a Customer is not required to pay disputed charges while the Company conducts its investigation into the matter.

2.8 Deposits

The Company may, in some instances, require deposits from Customers. Any such cash deposit received by the Company will bear simple interest at a rate of 7% per annum. Deposits will not exceed two and a half times (2.5x) the estimated monthly charge for service.

2.9. Advance Payments

The Company may require advance payments from Customers for the following services:

- (1) The construction of facilities and furnishing of special equipment; or
- (2) Temporary service for short-term use.

Issued: _____**Effective:** _____

By: Carrie L. Cox
Director of Legal and Regulatory Affairs
Charter Fiberlink AZ - CCVII, LLC
12405 Powerscourt Drive
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SECTION 2 - RULES AND REGULATIONS (Cont'd)

2.10 Contested Charges

All bills are presumed accurate, and shall be binding on the Customer unless objection is received by the Company no more than thirty (30) days after such bills are rendered. In the event that a billing dispute between the Customer and the Company for service furnished to the Customer cannot be settled with mutual satisfaction, the Customer may take the following course of action:

- 2.10.1 First, the Customer may request, and the Company will provide, an in-depth review of the disputed amount. (The undisputed portion and subsequent bills must be paid on a timely basis or the service may be subject to disconnection.)
- 2.10.2 Second, if there is still a disagreement about the disputed amount after investigation and review by the Company, the Customer may file an appropriate complaint with the Arizona Corporation Commission. The address of the Commission is:

Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007-2927
602-542-3477

2.11 Taxes

State and local sales, use and similar taxes or regulatory fees and assessments are billed as separate items and are not included in the quoted rates for service.

Issued: _____

Effective: _____

By: Carrie L. Cox
Director of Legal and Regulatory Affairs
Charter Fiberlink AZ - CCVII, LLC
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St. Louis, Missouri 63131-3674

SECTION 2 - RULES AND REGULATIONS (Cont'd)**2.12 Contract Service Arrangements**

At the option of the Company, services may be offered on a contract basis to meet specialized requirements of the Customer not contemplated in this tariff. The terms of each contract shall be mutually agreed upon between the Customer and the Company and may include discounts off of rates contained herein, waiver of recurring or nonrecurring charges, charges for specially designed and constructed services not contained in the Company's general service offerings, or other customized features. The terms of the contract may be based partially or completely on the term and volume commitment, type of originating or terminating access, mixture of services or other distinguishing features.

2.13 Special Construction

At its option, the Company may provide Customers, upon request, special construction of facilities or services on an individual case basis ("ICB") at rates other than as set forth herein. Special construction or ICB is construction undertaken:

- 2.13.1 where facilities are not presently available, and there is no other provision hereunder for the facilities to be constructed;
- 2.13.2 where facilities other than those which the Company provides are requested by the Customer;

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By: Carrie L. Cox
Director of Legal and Regulatory Affairs
Charter Fiberlink AZ - CCVII, LLC
12405 Powerscourt Drive
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SECTION 2 - RULES AND REGULATIONS (Cont'd)

2.13 Special Construction (Cont'd)

- 2.13.3 where facilities are requested by the Customer over a route other than that which the Company serves;
- 2.13.4 when services are requested in a quantity greater than that which the Company would normally provide to a Customer;
- 2.13.5 when services are requested by a Customer on an expedited basis;
- 2.13.6 when services or facilities are requested on a temporary basis until such services or permanent facilities are available.

The charges for special construction or ICB (i) are subject to individual negotiation between the Company and the Customer, (ii) will be based upon the Company's actually incurred labor, material and other costs, and (iii) may include without limitation recurring, non-recurring, and early termination charges.

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By: Carrie L. Cox
Director of Legal and Regulatory Affairs
Charter Fiberlink AZ - CCVII, LLC
12405 Powerscourt Drive
St. Louis, Missouri 63131-3674

SECTION 3 - DESCRIPTION OF SERVICE**3.1 Timing of Calls**

- 3.1.1 The Customer's monthly usage charges for the Company's services are based upon the total number of minutes the Customer uses and the service options to which the Customer subscribes. Chargeable time begins at the time a connection is established (*i.e.* when two-way communications is possible), and ends when a party terminates the connection.
- 3.1.2 No charges apply if a connection is not completed.
- 3.1.3 For billing purposes, all Calls are rounded up to the nearest minute and billed in increments of one minute. The minimum Call duration is 1 minute for a connected Call.
- 3.1.4 Where applicable, charges will be rounded up to the nearest penny.
- 3.1.5 Usage begins when a connection is established (*i.e.* when two-way communication is possible). A Call is terminated when the calling or called party terminates the connection.

3.2 Start of Billing

For billing purposes, the start of service is the day following acceptance by the Customer of the Company's service or equipment. The end of service date is the last day after receipt by the Company of notification of cancellation as described in Section 2.6.1 of this tariff.

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By: Carrie L. Cox
Director of Legal and Regulatory Affairs
Charter Fiberlink AZ - CCVII, LLC
12405 Powerscourt Drive
St. Louis, Missouri 63131-3674

SECTION 3 - DESCRIPTION OF SERVICE (Cont'd)

3.3 Calculation of Distance

3.3.1 Where applicable, usage charges for all mileage sensitive products are based on the airline distance between rate centers associated with the originating and terminating points of the Call.

3.3.2 Where applicable, the airline mileage between rate centers is determined by applying a formula to the vertical and horizontal coordinates associated with the rate centers involved. The Company uses the rate centers that are produced by Bell Communications Research in their NPA-NXX V&H Coordinates Tape and Bell's NECA Tariff No. 4.

3.4 Minimum Call Completion Rate

The Customer can expect a call completion rate of at least 97% per 100 Calls attempted during peak use periods for all services.

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Director of Legal and Regulatory Affairs
Charter Fiberlink AZ - CCVII, LLC
12405 Powerscourt Drive
St. Louis, Missouri 63131-3674

SECTION 3 - DESCRIPTION OF SERVICE (Cont'd)**3.5 Service Offerings**

The Company offers local exchange telecommunications services. The Customer's total monthly use of the Company's service is charged at the applicable rates per minute set forth herein, in addition to any monthly service charges. None of the service offerings are time-of-day sensitive.

3.5.1 Leased Line Service

A leased line is a private, dedicated point-to-point connection between a Company POP and another point on the Company's fiber-optic network specified by the Customer. Leased line service is provided to Customers on a statewide basis, based upon the location of the Company's facilities, with transmission speeds of either DS1 (1.5444 Mbps), DS3 (44.736 Mbps), OC3 (155.52 Mbps), OC12 (622.08 Mbps) and OC48 (2,488.32 Mbps). A local access line may be necessary to connect the Customer network or premise with the Company POP. This local access line may be provided to the Customer by the Customer's local exchange carrier.

3.6 Miscellaneous Services**3.6.1 Order Change**

An Order Change is a change in the Customer's service requested subsequent to installation.

3.6.2 Bad Check Charge

If payment for Service is made by a check, draft, or similar instrument (collectively "Check") that is returned to the Company unpaid by a bank or another financial institution for any reason, the Company will bill the Customer a returned check charge. In addition, the Customer may be required to replace the returned Check with a payment in cash or equivalent to cash, such as cashier's check, certified check or money order.

3.6.3 Reconnection

Reconnection charges occur where service to an existing Customer has been discontinued for proper cause, and the Customer desires to resume service with the Company. Where a Customer desires reconnection, the Customer will be charged a fee to cover the cost to the Company of restoring service to the Customer.

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By: Carrie L. Cox
Director of Legal and Regulatory Affairs
Charter Fiberlink AZ - CCVII, LLC
12405 Powerscourt Drive
St. Louis, Missouri 63131-3674

SECTION 4 - RATES AND CHARGES**4.1 Leased Line Service****4.1.1 Nonrecurring Charges**

<u>Transmission Speed</u>	<u>Installation</u>
DS1	ICB
DS3	ICB
OC3	ICB
OC12	ICB
OC48	ICB

Note: The foregoing rates represent a one time installation charge associated with the Service.

4.1.2 Recurring Charges

<u>Transmission Speed</u>	<u>Duration of Contract (in months)</u>		
	<u>12</u>	<u>36</u>	<u>60</u>
DS1	ICB	ICB	ICB
DS3	ICB	ICB	ICB
OC3	ICB	ICB	ICB
OC12	ICB	ICB	ICB
OC48	ICB	ICB	ICB

Note: The foregoing monthly rates are per DS0 mile, based on V&H coordinates; local access charges may apply.

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By: Carrie L. Cox
Director of Legal and Regulatory Affairs
Charter Fiberlink AZ - CCVII, LLC
12405 Powerscourt Drive
St. Louis, Missouri 63131-3674

SECTION 4 - RATES AND CHARGES (Cont'd)**4.2 Promotions**

From time to time, the Company may offer services or waive or vary service rates for promotional, market research or other similar business purposes. The Company will provide thirty (30) days prior notice to the Commission of all promotional offerings.

4.3 Bad Check Charge

If payment for Service is made by a check, draft, or similar instrument (collectively "Check") that is returned to the Company unpaid by a bank or another financial institution for any reason, the Company will bill the Customer twenty-five dollars (\$25.00). In addition, the Customer may be required to replace the returned Check with a payment in cash or equivalent to cash, such as a cashier's check, certified check or money order.

4.4 Order Charge

An Order Charge is a charge of forty dollars (\$40.00) for a change in the customer's service requested subsequent to installation.

4.5 Reconnect Charge

If service has been discontinued for proper cause, the Company will charge a fee of twenty-five dollars (\$25.00) to defray the cost of restoring service to the Customer.

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Director of Legal and Regulatory Affairs
Charter Fiberlink AZ - CCVII, LLC
12405 Powerscourt Drive
St. Louis, Missouri 63131-3674

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Effective: _____

By: Carrie L. Cox
Director of Legal and Regulatory Affairs
Charter Fiberlink AZ - CCVII, LLC
12405 Powerscourt Drive
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By: Carrie L. Cox
Director of Legal and Regulatory Affairs
Charter Fiberlink AZ - CCVII, LLC
12405 Powerscourt Drive
St. Louis, Missouri 63131-3674

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**12405 POWERSCOURT DRIVE
ST. LOUIS, MISSOURI 63131-3674**

INTEREXCHANGE TELECOMMUNICATIONS SERVICES TARIFF

This tariff contains the description, regulations and rates for the furnishing of services and facilities for telecommunications services provided by Charter Fiberlink AZ - CCVII, LLC with principal offices at Charter Communications, 12405 Powerscourt Drive, St. Louis, Missouri 63131-3674. This tariff applies for service furnished within the State of Arizona. This tariff is on file with the Arizona Corporation Commission and copies may be inspected during normal business hours.

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**By: Carrie L. Cox
Director of Legal and Regulatory Affairs
Charter Fiberlink AZ - CCVII, LLC
12405 Powerscourt Drive
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CHECK SHEET

The sheets listed below, which are inclusive of this tariff, are effective as of the date shown at the bottom of the respective sheet(s). Original and revised sheets as named below comprise all changes from the original tariff and are currently in effect as of the date indicated below.

<u>Sheet</u>	<u>Revision</u>	<u>Sheet</u>	<u>Revision</u>
1	Original	17	Original
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3	Original	19	Original
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9	Original	25	Original
10	Original	26	Original
11	Original	27	Original
12	Original	28	Original
13	Original		
14	Original		
15	Original		
16	Original		

* New/Revised this issue

Issued: _____

Effective: _____

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Director of Legal and Regulatory Affairs
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12405 Powerscourt Drive
St. Louis, Missouri 63131-3674

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Issued: _____

Effective: _____

By: Carrie L. Cox
Director of Legal and Regulatory Affairs
Charter Fiberlink AZ - CCVII, LLC
12405 Powerscourt Drive
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Director of Legal and Regulatory Affairs
Charter Fiberlink AZ - CCVII, LLC
12405 Powerscourt Drive
St. Louis, Missouri 63131-3674

SYMBOLS

The following are the only symbols used for the purposes indicated below:

- (D) Delete or Discontinue
- (I) Change Resulting in an Increase to a Customer's Bill
- (M) Moved from Another Tariff Location
- (N) New
- (R) Change Resulting in a Reduction to a Customer's Bill
- (T) Change in Text or Regulation but no Change in Rate or Charge

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Director of Legal and Regulatory Affairs
Charter Fiberlink AZ - CCVII, LLC
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TARIFF FORMAT

- A. **Sheet Numbering** - Page numbers appear in the upper right corner of the sheet. Pages are numbered sequentially. However, new pages are occasionally added to the tariff. When a new page is added between existing pages with whole numbers, a decimal is added. For example, a new page added between pages 34 and 35 would be page 34.1.
- B. **Sheet Revision Numbering** - Revision numbers also appear in the upper right corner of the page. These numbers are used to determine the most current page version on file with the Commission. For example, 4th Revised Page 34 cancels the 3rd Revised Page 34. Consult the check sheet for the page currently in effect.
- C. **Paragraph Numbering Sequence** - There are nine levels of paragraph coding. Each level of coding is subservient to its next higher level:
- 2
 - 2.1
 - 2.1.1
 - 2.1.1.A
 - 2.1.1.A.1
 - 2.1.1.A.1.(a)
 - 2.1.1.A.1.(a).I
 - 2.1.1.A.1.(a).I.(i)
 - 2.1.1.A.1.(a).I.(i).(1)
- D. **Check Sheet** - When a tariff is filed with the Commission, an updated check sheet accompanies the tariff filing. The check sheet lists the tariff pages, with a cross reference to the current revision number. When new sheets are added, the check sheet is changed to reflect the revision. All revisions made in a given filing are designated by an asterisk (*). There will be no other symbols used on this sheet if these are the only changes made. The tariff user should refer to the latest check sheet to find out if a particular page is the most current on file with the Commission.

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By: Carrie L. Cox
Director of Legal and Regulatory Affairs
Charter Fiberlink AZ - CCVII, LLC
12405 Powerscourt Drive
St. Louis, Missouri 63131-3674

APPLICATION OF TARIFF

This tariff sets forth the service offerings, rates and terms and conditions of service applicable to the furnishing of intrastate interexchange telecommunications services by Charter Fiberlink AZ - CCVII, LLC ("Company") to Customers within the State of Arizona.

Issued: _____

Effective: _____

By: Carrie L. Cox
Director of Legal and Regulatory Affairs
Charter Fiberlink AZ - CCVII, LLC
12405 Powerscourt Drive
St. Louis, Missouri 63131-3674

SECTION 1 - TECHNICAL TERMS AND ABBREVIATIONS

1.1 Definitions

Busy Hour - The two consecutive half hours during which the greatest volume of traffic is handled.

Call - A completed connection between the Calling and Called parties.

Calling Station - The telephone number from which a Call originates.

Called Station - The telephone number called.

Carrier Customer - A carrier that orders exchange access or retail services from the Company.

Commission - The Arizona Corporation Commission.

Company or Carrier - Charter Fiberlink AZ - CCVII, LLC, unless specifically stated otherwise.

Customer - A person, firm, corporation, partnership or other entity, in whose name the telephone number of the Calling Station is registered with the underlying local exchange company. The Customer is responsible for payment of charges to the Company and compliance with all terms and conditions of this tariff.

Day - The period of time from 8:00 a.m. to (but not including) 5:00 p.m., Monday through Friday, as measured by local time at the location from which the Call is originated.

Disconnect - To render inoperable or to disable circuitry thus preventing outgoing and incoming communications service.

DS1 - Digital Signal, level 1. Capable of transmitting data at 1.544 Mbps.

DS3 - Digital Signal, level 3. Capable of transmitting data at 44.736 Mbps.

Evening - The period of time from 5:00 p.m. to (but not including) 11:00 p.m., Sunday through Friday and any time during a Holiday, as measured by local time at the location from which the Call is originated.

Gbps - One thousand million bits per second.

Incomplete - Any Call where voice transmission between the Calling and Called station is not established.

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By: Carrie L. Cox
Director of Legal and Regulatory Affairs
Charter Fiberlink AZ - CCVII, LLC
12405 Powerscourt Drive
St. Louis, Missouri 63131-3674

SECTION 1 - TECHNICAL TERMS AND ABBREVIATIONS (Cont'd)

1.1 Definitions (Cont'd)

Holiday - For the purposes of this tariff recognized holidays are New Year's Day, Memorial Day, Independence Day, Labor Day, Thanksgiving Day, and Christmas Day.

Mbps – One million bits per second.

Message - A completed telephone call by a Customer or User.

Normal Business Hours – The hours of 8:00 a.m. to 5:00 p.m., Monday through Friday, excluding holidays.

OC3 – Optical Carrier, level 3. A SONET channel capable of transmitting data at 155.52 Mbps.

OC12 – Optical Carrier, level 12. A SONET channel capable of transmitting data at 622.08 Mbps.

OC48 – Optical Carrier, level 48. A SONET channel capable of transmitting data at 2.488 Gbps.

Premises – The space occupied by an individual Customer in a building, in adjoining buildings occupied entirely by that Customer, or on contiguous property occupied by the Customer separated only by a public thoroughfare, a railroad right of way, or a natural barrier.

Rate – Money, charge, fee or other recurring assessment billed to Customers for services or equipment.

State – Arizona.

Terminal Equipment - Telephone instruments, including pay telephone equipment, the common equipment of large and small key and PBX systems and other devices and apparatus, and associated wiring, which are intended to be connected electrically, acoustically, or inductively to the telecommunication system.

User or End User – Customer or any authorized person or entity that utilizes the Company's services.

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By: Carrie L. Cox
Director of Legal and Regulatory Affairs
Charter Fiberlink AZ - CCVII, LLC
12405 Powerscourt Drive
St. Louis, Missouri 63131-3674

SECTION 1 – TECHNICAL TERMS AND ABBREVIATIONS (Cont'd)

1.2 Abbreviations

CLEC – Competitive Local Exchange Carrier

CO – Central Office

CPE – Customer Premises Equipment

DS1 – Digital Signal, Level 1

DS3 – Digital Signal, Level 3

ILEC – Incumbent Local Exchange Carrier

NPA – Numbering Plan Area (Area Code)

OC3 – Optical Carrier, Level 3

OC12 – Optical Carrier, Level 12

OC48 – Optical Carrier, Level 48

PBX – Private Branch Exchange

PIC – Primary or Preferred Interexchange Carrier

POP – Point of Presence

V&H - Vertical and Horizontal Coordinates

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By: Carrie L. Cox
Director of Legal and Regulatory Affairs
Charter Fiberlink AZ - CCVII, LLC
12405 Powerscourt Drive
St. Louis, Missouri 63131-3674

SECTION 2 - RULES AND REGULATIONS

2.1 Undertaking of the Company

- 2.1.1 The Company provides telecommunications services to business and carrier Customers.
- 2.1.2 The Company installs, operates and maintains the communications services provided herein in accordance with the terms and conditions set forth in this tariff. When authorized by the Customer, the Company may act as the Customer's agent for ordering access connection facilities provided by other carriers or entities to allow connection of a Customer's location to the Company's network. The Customer shall be responsible for all charges due for such service arrangements.
- 2.1.3 The Company's services are provided on a monthly basis, unless otherwise stated in this tariff. Services are available twenty-four (24) hours per day, seven (7) days per week.

2.2 Limitations of Service

- 2.2.1 Service is offered subject to the availability of facilities and provisions of this tariff.
- 2.2.2 Service is furnished to the User for any lawful purpose. Service shall not be used for any unlawful purpose, nor used in such a manner as to interfere unreasonably with the use of service by any other Users.
- 2.2.3 The use of the Company's services without payment for service or attempting to avoid payment for service by fraudulent means or devices, false or invalid numbers, or false calling or credit cards is prohibited.
- 2.2.4 The Company's services may be denied for nonpayment of charges or for other violations of the terms and conditions set forth in this tariff.
- 2.2.5 The use of the Company's services to make Calls which might reasonably be expected to frighten, abuse, torment, or harass another is prohibited.

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By: Carrie L. Cox
Director of Legal and Regulatory Affairs
Charter Fiberlink AZ - CCVII, LLC
12405 Powerscourt Drive
St. Louis, Missouri 63131-3674

SECTION 2 - RULES AND REGULATIONS (Cont'd)

2.2 Limitations of Service (Cont'd)

- 2.26 Service temporarily may be refused or limited because of system capacity limitations.
- 2.27 Service is subject to transmission limitations caused by natural (including atmospheric, geographic or topographic) or artificial conditions adversely affecting transmission.
- 2.28 Service to any or all Customers may be temporarily interrupted or curtailed due to equipment modifications, upgrades, relocations, repairs and similar activities necessary for proper or improved operations.
- 2.29 The Company reserves the right to discontinue furnishing service where the Customer is using the service in violation of the law or the provisions of this tariff.

2.3 Limitations of Liability

- 2.3.1 Because the Company has no control of communications content transmitted over its system, and because of the possibility of errors incident to the provision and use of its service, service furnished by the Company is subject to the terms, conditions and limitations herein specified.
- 2.3.2 The Company is not liable to Users for interruptions in service except as set forth in Section 2.5 of this tariff.
- 2.3.3 The liability of the Company for errors in billing that result in overpayment by the Customer shall be limited, unless otherwise ordered by the Commission, to a credit equal to the dollar amount erroneously billed or, in the event that payment has been made and service has been discontinued, to a refund of the amount erroneously billed.

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By: Carrie L. Cox
Director of Legal and Regulatory Affairs
Charter Fiberlink AZ - CCVII, LLC
12405 Powerscourt Drive
St. Louis, Missouri 63131-3674

SECTION 2 - RULES AND REGULATIONS (Cont'd)

2.3 Limitations of Liability (Cont'd)

2.3.4 The Company shall not be liable for and the User shall indemnify and hold the Company harmless against any claims for loss or damages involving:

2.3.4.A Any act or omission of: (i) the User; or (ii) any other entity furnishing service, equipment or facilities for use in conjunction with services or facilities provided by the Company;

2.3.4.B Interruptions or delays in transmission, or errors or defects in transmission, or failure to transmit when caused by or as a result of acts of God, fire, flood or other catastrophes, war, riots, national emergencies, government or military authorities, strikes, lock-outs, work stoppages or other labor difficulties, or causes beyond the Company's control;

2.3.4.C Any unlawful or unauthorized use of the Company's facilities and services;

2.3.4.D Libel, slander or infringement of copyright arising directly or indirectly from content transmitted over facilities provided by the Company;

2.3.4.E Infringement of patents arising from combining apparatus and systems of the User with facilities provided by the Company;

2.3.4.F Claims arising out of any act or omission of the User in connection with service provided by the Company.

2.3.4.G Breach in the privacy or security of communications transmitted over the Company's facilities;

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By: Carrie L. Cox
Director of Legal and Regulatory Affairs
Charter Fiberlink AZ - CCVII, LLC
12405 Powerscourt Drive
St. Louis, Missouri 63131-3674

SECTION 2 - RULES AND REGULATIONS (Cont'd)

2.3 Limitations of Liability (Cont'd)

2.3.4 (Cont'd)

- 2.3.4.H Changes in any of the facilities, operations or procedures of the Company that: (1) render any equipment, facilities or services provided or utilized by the User obsolete; (2) require modification or alteration of such equipment, facilities or services; or (3) otherwise affect use or performance of such equipment, facilities or services except where reasonable notice is required by the Company and is not provided to the Customer.
- 2.3.4.I Defacement of or damage to the Customer's Premises or personal property resulting from the furnishing of services or equipment on such Premises or the installation or removal thereof, unless such defacement is caused by negligence or the willful misconduct of the Company's agents or employees.
- 2.3.4.J Any wrongful act of a Company employee where such act is not authorized by the Company and is not within the scope of the employee's responsibilities for the Company;
- 2.3.4.K Any noncompleted calls due to network busy conditions; and
- 2.3.4.L Any calls not actually attempted to be completed during any period that service is unavailable.
- 2.3.5 The User shall reimburse the Company for all costs, expenses and fees (including reasonable attorneys' fees and costs) incurred by the Company in its defense against claims set forth in Section 2.3.4.
- 2.3.6 The Company assumes no responsibility for the availability or performance of any facilities under the control of other entities that are used to provide service to the User, even if the Company has acted as the User's agent in arranging for such facilities or services.

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By: Carrie L. Cox
Director of Legal and Regulatory Affairs
Charter Fiberlink AZ - CCVII, LLC
12405 Powerscourt Drive
St. Louis, Missouri 63131-3674

SECTION 2 - RULES AND REGULATIONS (Cont'd)

2.3 Limitations of Liability (Cont'd)

- 2.3.7 Any claim against the Company shall be deemed waived unless presented in writing to the Company within thirty (30) days after the date of the occurrence that gave rise to the claim.
- 2.3.8 With respect to the services provided pursuant to this tariff, the Company makes no representations or warranties, express or implied, either in fact or by operation of law, statutory or otherwise, including, but not limited to, warranties of title or implied warranties of merchantability or fitness for a particular purpose, except those expressly set forth in this tariff. The Company does not authorize anyone to make a warranty or representation of any kind on its behalf and the User should not rely on any such statement.
- 2.3.9 Any liability of the Company for loss or damages arising out of mistakes, omissions, interruptions, delays, errors or defects in the service, the transmission of the service, or failures or defects in facilities furnished by the Company, occurring in the course of furnishing service shall in no event exceed an amount equivalent to the proportionate fixed monthly charge to the Customer for service, during the period of time in which such mistakes, omissions, interruptions, delays, errors or defects in the service, its transmission or failure or defect in facilities furnished by the Company occurred.

2.4 Responsibilities of the Customer

- 2.4.1 The Customer is responsible for placing any necessary orders, complying with tariff regulations and ensuring that Users comply with tariff regulations. The Customer shall ensure compliance with any applicable laws, regulations, orders or other requirements of any governmental entity relating to services provided by the Company to the Customer or made available by the Customer to another User. The Customer also is responsible for the payment of charges for all Calls originated at the Customer's numbers which are not collect, third party, calling card, or credit card Calls.

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By: Carrie L. Cox
Director of Legal and Regulatory Affairs
Charter Fiberlink AZ - CCVII, LLC
12405 Powerscourt Drive
St. Louis, Missouri 63131-3674

SECTION 2 - RULES AND REGULATIONS (Cont'd)

2.4 Responsibilities of the Customer (Cont'd)

- 2.4.2 The Customer is responsible for charges incurred for special construction and/or special facilities which the Customer requests and which are ordered by the Company on the Customer's behalf.
- 2.4.3 If required for the provisioning of the Company's services, the Customer must provide the Company, free of charge, with any necessary equipment space, supporting structure, conduit and electrical power.
- 2.4.4 The Customer is responsible for arranging access to its Premises at times mutually agreeable to the Company and the Customer when required for Company personnel to install, repair, maintain, program, inspect or remove equipment associated with the provision of the Company's services.
- 2.4.5 The Customer must pay the Company for replacement or repair of damage to the Company's equipment or facilities caused by negligent or improper use on the part of the Customer, Users, or others.
- 2.4.6 The Customer must indemnify the Company for the theft of any Company equipment or facilities installed at the Customer's Premises.
- 2.4.7 The Customer agrees, except where the events, incidents or eventualities set forth in this sentence are the result of the Company's gross negligence or willful misconduct, to release, indemnify and hold harmless the Company against any and all loss, claims, demands, suits or other action or any liability whatsoever, whether suffered, made, instituted or asserted by the Customer or by any other party or person, for any personal injury to or death of any person or persons, or for any loss of or damage to any property, whether owned by the Customer or others. The Customer shall reimburse the Company for all costs, expenses and fees (including reasonable attorneys' fees and costs) incurred by the Company in its defense against such actions.

Issued: _____

Effective: _____

By: Carrie L. Cox
Director of Legal and Regulatory Affairs
Charter Fiberlink AZ - CCVII, LLC
12405 Powerscourt Drive
St. Louis, Missouri 63131-3674

SECTION 2 - RULES AND REGULATIONS (Cont'd)

2.5 Allowances for Interruptions in Service

2.5.1 General

- 2.5.1.A A service is interrupted when it becomes unusable to the User, e.g., the User is unable to transmit or receive communications due to the failure of a component furnished by the Company under this tariff.
- 2.5.1.B An interruption period begins when the User reports a service, facility or circuit to be inoperative and releases it for testing and repair. An interruption period ends when the service, facility or circuit is operative.
- 2.5.1.C If the User reports a service, facility or circuit to be inoperative but declines to release it for testing and repair, the service, facility or circuit is considered to be impaired but not interrupted. No credit allowances will be made for a service facility or circuit considered by the Company to be impaired.

2.5.2 Application of Credits for Interrupted Services

- 2.5.2.A At the Customer's request, a credit allowance for a continuous interruption of service for more than twenty-four (24) hours will be made in an amount to be determined by the Company on a case-by-case basis.
- 2.5.2.B Any such interruption will be measured from the time it is reported to or detected by the Company, whichever occurs first.
- 2.5.2.C In the event the User is affected by such interruption for a period of less than twenty-four (24) hours, no adjustment will be made. No adjustments will be earned by accumulating non-continuous periods of interruption.
- 2.5.2.D When an interruption exceeds twenty-four (24) hours, the length of the interruption will be measured in twenty-four (24) hour days. A fraction of a day consisting of less than twelve (12) hours will not be credited and a period of twelve (12) hours or more will be considered an additional day.

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SECTION 2 - RULES AND REGULATIONS (Cont'd)

2.5 Allowances for Interruptions in Service (Cont'd)

2.5.3 Limitations on Allowances

2.5.3.A No credit allowance will be made for any interruption of service:

- 2.5.3.A.1 due to the negligence of, or noncompliance with the provisions of this tariff by, any person or entity other than the Company, including but not limited to the Customer or other entities or carriers connected to the service of the Company;
- 2.5.3.A.2 due to the failure of power, equipment, systems or services not provided by the Company;
- 2.5.3.A.3 due to circumstances or causes beyond the control of the Company;
- 2.5.3.A.4 during any period in which the Company is not given full and free access to the Customer's or Company's facilities and equipment for the purpose of investigating and correcting the interruption;
- 2.5.3.A.5 during any period in which the User continues to use the service on an impaired basis;
- 2.5.3.A.6 during any period in which the Customer has released service to the Company for maintenance purposes or for implementation of a Customer order for a change in service arrangements;
- 2.5.3.A.7 that occurs or continues due to the Customer's failure to authorize replacement of any element of special construction; and
- 2.5.3.A.8 that was not reported to the Company within thirty (30) days of the date that service was affected.

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SECTION 2 - RULES AND REGULATIONS (Cont'd)

2.6 Termination of Service

- 2.6.1 A Customer may terminate service, with or without cause, by giving the Company notice either verbally or in writing. If the Company has a term contract, early termination charges may apply. The Company may terminate service with cause by giving the Customer five (5) business days' written notice. The Company may terminate service without notice in the event of the Customer maintaining and/or operating its own equipment in a manner that may cause imminent harm to the Company's equipment.
- 2.6.2 The Customer is responsible for all charges incurred to the Calling Station regardless of which party terminates the service. The Customer shall reimburse the Company for all costs, expenses and fees (including reasonable attorneys' fees and costs) incurred by the Company in collecting such charges.

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SECTION 2 - RULES AND REGULATIONS (Cont'd)

2.7 Payment of Charges

- 2.7.1 The Customer is responsible for payment of all charges for service furnished to the User.
- 2.7.2 The Company reserves the right to assess late payment charges for Customers whose account(s) carries principal owing from the prior billing period. Any charges not paid in full by the due date indicated on the billing statement may be subject to a late fee of 1.5% per month.
- 2.7.3 Recurring monthly charges may be invoiced one month in advance. Invoicing cycles are approximately 30 days in length.
- 2.7.4 Customers must notify the Company either verbally or in writing of any disputed charges within thirty (30) days of the billing date, otherwise all charges on the invoice will be deemed accepted. All charges remain due and payable at the due date, although a Customer is not required to pay disputed charges while the Company conducts its investigation into the matter.

2.8 Deposits

The Company may, in some instances, require deposits from Customers. Any such cash deposit received by the Company will bear simple interest at a rate of 7% per annum. Deposits will not exceed two and a half times (2.5x) the estimated monthly charge for service.

2.9 Advance Payments

The Company may require advance payments from Customers for the following services:

- (1) The construction of facilities and furnishing of special equipment; or
- (2) Temporary service for short-term use.

The aggregate amount of any Advance Payment and Deposit required pursuant to Sections 2.8 and 2.9 of this Tariff will not exceed two and one half times the estimated monthly charge to Customer for service.

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12405 Powerscourt Drive
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SECTION 2 - RULES AND REGULATIONS (Cont'd)

2.10 Contested Charges

All bills are presumed accurate, and shall be binding on the Customer unless objection is received by the Company no more than thirty (30) days after such bills are rendered. In the event that a billing dispute between the Customer and the Company for service furnished to the Customer cannot be settled with mutual satisfaction, the Customer may take the following course of action:

- 2.10.1 First, the Customer may request, and the Company will provide, an in-depth review of the disputed amount. (The undisputed portion and subsequent bills must be paid on a timely basis or the service may be subject to disconnection.)
- 2.10.2 Second, if there is still a disagreement about the disputed amount after investigation and review by the Company, the Customer may file an appropriate complaint with the Arizona Corporation Commission. The address of the Commission is:

Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007-2927
602-542-3477

2.11 Taxes

State and local sales, use and similar taxes or regulatory fees and assessments are billed as separate items and are not included in the quoted rates for service.

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SECTION 2 - RULES AND REGULATIONS (Cont'd)

2.12 Contract Service Arrangements

At the option of the Company, services may be offered on a contract basis to meet specialized requirements of the Customer not contemplated in this tariff. The terms of each contract shall be mutually agreed upon between the Customer and the Company and may include discounts off of rates contained herein, waiver of recurring or nonrecurring charges, charges for specially designed and constructed services not contained in the Company's general service offerings, or other customized features. The terms of the contract may be based partially or completely on the term and volume commitment, type of originating or terminating access, mixture of services or other distinguishing features.

2.13 Special Construction

At its option, the Company may provide Customers, upon request, special construction of facilities or services on an individual case basis ("ICB") at rates other than as set forth herein. Special construction or ICB is construction undertaken:

- 2.13.1 where facilities are not presently available, and there is no other provision hereunder for the facilities to be constructed;
- 2.13.2 where facilities other than those which the Company provides are requested by the Customer;

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SECTION 2 - RULES AND REGULATIONS (Cont'd)

2.13 Special Construction (Cont'd)

- 2.13.3 where facilities are requested by the Customer over a route other than that which the Company serves;
- 2.13.4 when services are requested in a quantity greater than that which the Company would normally provide to a Customer;
- 2.13.5 when services are requested by a Customer on an expedited basis;
- 2.13.6 when services or facilities are requested on a temporary basis until such services or permanent facilities are available.

The charges for special construction or ICB (i) are subject to individual negotiation between the Company and the Customer, (ii) will be based upon the Company's actually incurred labor, material and other costs, and (iii) may include without limitation recurring, non-recurring, and early termination charges.

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SECTION 3 - DESCRIPTION OF SERVICE

3.1 Timing of Calls

- 3.1.1 The Customer's monthly usage charges for the Company's services are based upon the total number of minutes the Customer uses and the service options to which the Customer subscribes. Chargeable time begins at the time a connection is established (*i.e.* when two-way communications is possible), and ends when a party terminates the connection.
- 3.1.2 No charges apply if a connection is not completed.
- 3.1.3 For billing purposes, all Calls are rounded up to the nearest minute and billed in increments of one minute. The minimum Call duration is 1 minute for a connected Call.
- 3.1.4 Where applicable, charges will be rounded up to the nearest penny.
- 3.1.5 Usage begins when a connection is established (*i.e.* when two-way communication is possible). A Call is terminated when the calling or called party terminates the connection.

3.2 Start of Billing

For billing purposes, the start of service is the day following acceptance by the Customer of the Company's service or equipment. The end of service date is the last day after receipt by the Company of notification of cancellation as described in Section 2.6.1 of this tariff.

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SECTION 3 - DESCRIPTION OF SERVICE (Cont'd)

3.3 Calculation of Distance

3.3.1 Where applicable, usage charges for all mileage sensitive products are based on the airline distance between rate centers associated with the originating and terminating points of the Call.

3.3.2 Where applicable, the airline mileage between rate centers is determined by applying a formula to the vertical and horizontal coordinates associated with the rate centers involved. The Company uses the rate centers that are produced by Bell Communications Research in their NPA-NXX V&H Coordinates Tape and Bell's NECA Tariff No. 4.

3.4 Minimum Call Completion Rate

The Customer can expect a call completion rate of at least 97% per 100 Calls attempted during peak use periods for all services.

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SECTION 3 - DESCRIPTION OF SERVICE (Cont'd)

3.5 Service Offerings

The Company offers interexchange telecommunications services. The Customer's total monthly use of the Company's service is charged at the applicable rates per minute set forth herein, in addition to any monthly service charges. None of the service offerings are time-of-day sensitive.

3.5.1 Leased Line Service

A leased line is a private, dedicated point-to-point connection between a Company POP and another point on the Company's fiber-optic network specified by the Customer. Leased line service is provided to Customers on a statewide basis, based upon the location of the Company's facilities, with transmission speeds of either DS1 (1.5444 Mbps), DS3 (44.736 Mbps), OC3 (155.52 Mbps), OC12 (622.08 Mbps) and OC48 (2,488.32 Mbps). A local access line may be necessary to connect the Customer network or premise with the Company POP. This local access line may be provided to the Customer by the Customer's local exchange carrier.

3.6 Miscellaneous Services

3.6.1 Order Change

An Order Change is a change in the Customer's service requested subsequent to installation.

3.6.2 Bad Check Charge

If payment for Service is made by a check, draft, or similar instrument (collectively "Check") that is returned to the Company unpaid by a bank or another financial institution for any reason, the Company will bill the Customer a returned check charge. In addition, the Customer may be required to replace the returned Check with a payment in cash or equivalent to cash, such as cashier's check, certified check or money order.

3.6.3 Reconnection

Reconnection charges occur where service to an existing Customer has been discontinued for proper cause, and the Customer desires to resume service with the Company. Where a Customer desires reconnection, the Customer will be charged a fee to cover the cost to the Company of restoring service to the Customer.

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SECTION 4 - RATES AND CHARGES

4.1 Leased Line Service

4.1.1 Nonrecurring Charges

<u>Transmission Speed</u>	<u>Installation</u>
DS1	ICB
DS3	ICB
OC3	ICB
OC12	ICB
OC48	ICB

Note: The foregoing rates represent a one time installation charge associated with the Service.

4.1.2 Recurring Charges

<u>Transmission Speed</u>	<u>Duration of Contract (in months)</u>		
	<u>12</u>	<u>36</u>	<u>60</u>
DS1	ICB	ICB	ICB
DS3	ICB	ICB	ICB
OC3	ICB	ICB	ICB
OC12	ICB	ICB	ICB
OC48	ICB	ICB	ICB

Note: The foregoing monthly rates are per DS0 mile, based on V&H coordinates; local access charges may apply.

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SECTION 4 - RATES AND CHARGES (Cont'd)

4.2 Promotions

From time to time, the Company may offer services or waive or vary service rates for promotional , market research or other similar business purposes. The Company will provide thirty (30) days prior notice to the Commission of all promotional offerings.

4.3 Bad Check Charge

If payment for Service is made by a check, draft, or similar instrument (collectively "Check") that is returned to the Company unpaid by a bank or another financial institution for any reason, the Company will bill the Customer twenty-five dollars (\$25.00). In addition, the Customer may be required to replace the returned Check with a payment in cash or equivalent to cash, such as a cashier's check, certified check or money order.

4.4 Order Charge

An Order Charge is a charge of forty dollars (\$40.00) for a change in the customer's service requested subsequent to installation.

4.5 Reconnect Charge

If service has been discontinued for proper cause, the Company will charge a fee of twenty-five dollars (\$25.00) to defray the cost of restoring service to the Customer.

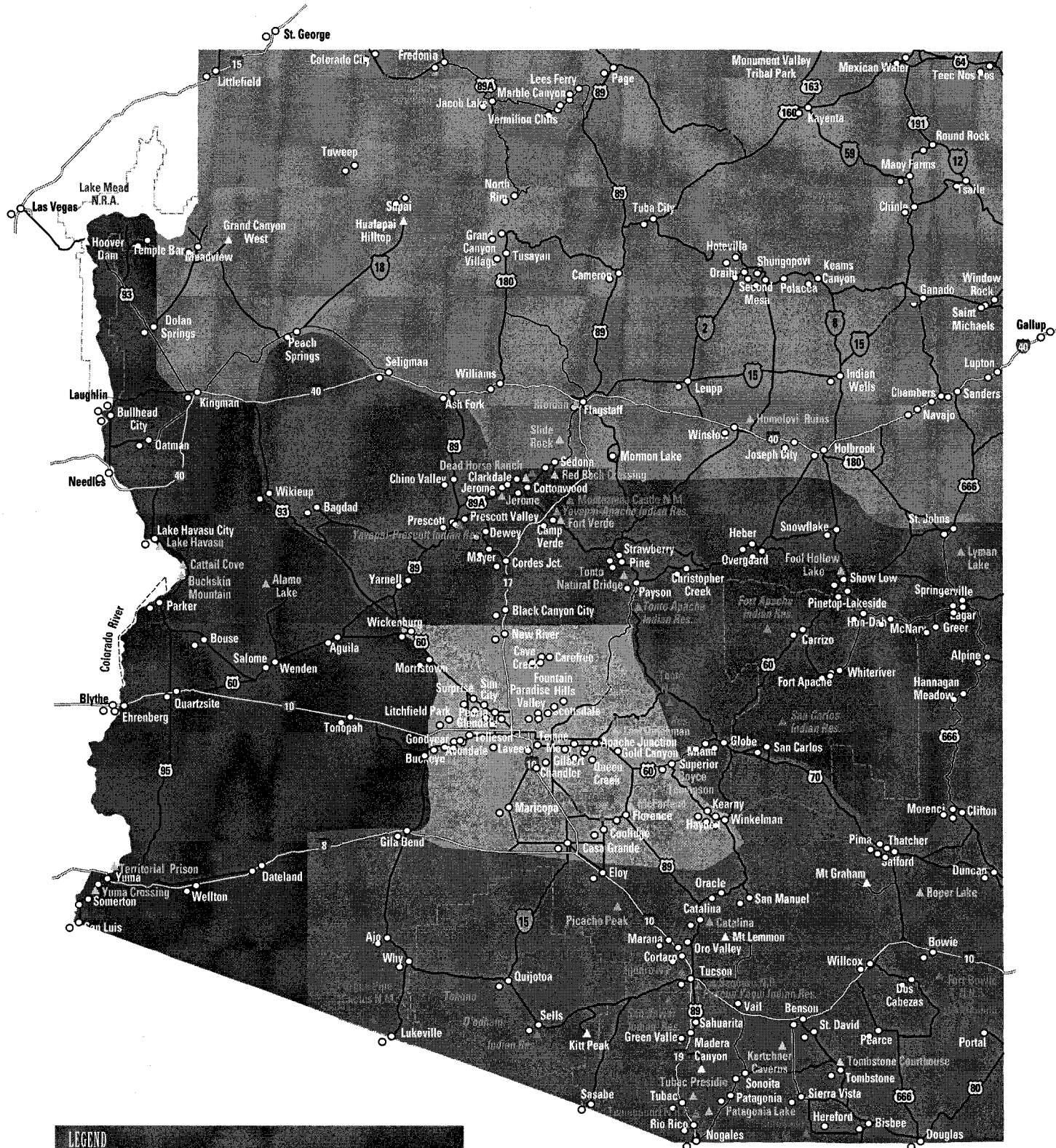
Issued: _____

Effective: _____

By: Carrie L. Cox
Director of Legal and Regulatory Affairs
Charter Fiberlink AZ - CCVII, LLC
12405 Powerscourt Drive
St. Louis, Missouri 63131-3674

ATTACHMENT "C"

GEOGRAPHIC MARKET TO BE SERVED



LEGEND

- ▲ Points of Interest
- ▲ State Parks
- ▲ Indian Reservations
- ▲ National Parks and Monuments

- Important Roads
- Divided Highways
- Scenic Roads
- Interstate Highways

- Indian Roads
- U.S. Highways
- State Highways

ATTACHMENT "D"

APPLICANT'S FINANCIAL STATEMENTS

The audited financial statements and accompanying notes of Applicant's ultimate corporate parent, Charter Communications, Inc., for the years 2002 and 2003 are attached hereto.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

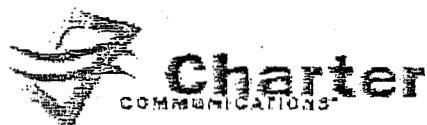
(Mark One)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the year ended December 31, 2002
or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____
Commission file number: 000-27927



Charter Communications, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

48-1857213
(I.R.S. Employer Identification Number)

12405 Powerscourt Drive
St. Louis, Missouri 63131

(314) 965-0555

(Address of principal executive offices including zip code)

(Registrant's telephone number, including area code)

Securities registered pursuant to section 12(b) of the Act: None
Securities registered pursuant to section 12(g) of the Act:
Class A Common Stock, \$.001 Par Value

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by checkmark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☒ No ☐

The aggregate market value of the registrant of outstanding Class A Common Stock held by non-affiliates of the registrant at June 28, 2002 was approximately \$1.1 billion, computed based on the closing sale price as quoted on the Nasdaq National Market on that date. For purposes of this calculation only, directors, executive officers and the principal controlling shareholder of the registrant are deemed to be affiliates of the registrant.

There were 294,527,595 shares of Class A Common Stock outstanding as of February 23, 2003. There were 50,000 shares of Class B Common Stock outstanding as of the same date.

Documents Incorporated By Reference

The following documents are incorporated into this Report by reference: None

Table of Contents

Independent Auditors' Report

To the Board of Directors
Charter Communications, Inc:

We have audited the accompanying consolidated balance sheets of Charter Communications, Inc. and subsidiaries as of December 31, 2002, 2001 and 2000, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2002. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Charter Communications, Inc. and subsidiaries as of December 31, 2002, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 3 to the consolidated financial statements, the Company has restated the consolidated balance sheets as of December 31, 2001 and 2000 and the related consolidated statements of operations, changes in shareholders' equity and cash flows for the years then ended, which consolidated financial statements were previously audited by other independent auditors who have ceased operations.

As discussed in Note 4 to the consolidated financial statements, effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets."

/s/ KPMG LLP

St. Louis, Missouri
April 14, 2003

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CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
(dollars in millions)

		December 31,		
		2002	2001	2000
			(restated)	(restated)
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 321	\$ 2	\$ 131	
Accounts receivable, less allowance for doubtful accounts of \$19, \$33 and \$12, respectively	259	292	209	
Receivables from related party	8	5		
Prepaid expenses and other current assets	45	70	87	
Total current assets	633	369	427	
INVESTMENT IN CABLE PROPERTIES:				
Property, plant and equipment, net of accumulated depreciation of \$2,634, \$1,928 and \$1,150, respectively	7,679	6,914	4,329	
Franchises, net of accumulated amortization of \$3,452, \$3,443 and \$2,006, respectively	13,727	18,911	18,835	
Total investment in cable properties, net	21,406	25,825	23,664	
OTHER ASSETS				
	345	269	261	
Total assets	\$22,384	\$26,463	\$24,352	
LIABILITIES AND SHAREHOLDERS' EQUITY				
CURRENT LIABILITIES:				
Accounts payable and accrued expenses	\$ 1,405	\$ 1,379	\$ 1,343	
Total current liabilities	1,405	1,379	1,343	
LONG-TERM DEBT				
	18,671	16,343	13,061	
DEFERRED MANAGEMENT FEES - RELATED PARTY				
	14	14	14	
OTHER LONG-TERM LIABILITIES				
	1,177	1,682	1,517	
MINORITY INTEREST				
	1,025	4,409	4,546	
REDEEMABLE SECURITIES				
			1,104	
PREFERRED STOCK - REDEEMABLE: \$.001 par value; 1 million shares authorized; 505,664 shares issued and outstanding				
	51	51		
SHAREHOLDERS' EQUITY:				
Class A Common stock: \$.001 par value; 1.75 billion shares authorized; 294,620,408, 294,536,830 and 233,702,135 shares issued and outstanding, respectively				
Class B Common stock: \$.001 par value; 750 million shares authorized; 50,000 shares issued and outstanding				
Preferred stock: \$.001 par value; 250 million shares authorized; no non-redeemable shares issued and outstanding				
Additional paid-in capital	4,697	4,694	3,691	
Accumulated deficit	(4,009)	(2,092)	(924)	
Accumulated other comprehensive loss	(47)	(17)		
Total shareholders' equity	41	2,585	2,767	
Total liabilities and shareholders' equity	\$22,384	\$26,463	\$24,352	

The accompanying notes are an integral part of these consolidated financial statements.

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CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(dollars in millions, except per share data)

	Year Ended December 31,		
	2002	2001	2000
REVENUES	\$ 4,566	(restated) \$ 3,807	(restated) \$ 3,141
COSTS AND EXPENSES:			
Operating (excluding depreciation and amortization and other items listed below)	1,804	1,480	1,185
Selling, general and administrative	966	832	608
Depreciation and amortization	1,437	2,682	2,398
Impairment of franchises	4,638	—	—
Option compensation expense, net	5	(5)	38
Special charges	36	18	—
	<u>8,886</u>	<u>5,007</u>	<u>4,229</u>
Loss from operations	(4,320)	(1,200)	(1,088)
OTHER INCOME (EXPENSE):			
Interest expense, net	(1,506)	(1,313)	(1,042)
Loss on equity investments	(3)	(54)	(19)
Other, net	(118)	(66)	(1)
	<u>(1,627)</u>	<u>(1,433)</u>	<u>(1,062)</u>
Loss before minority interest, income taxes and cumulative effect of accounting change	(5,947)	(2,633)	(2,150)
MINORITY INTEREST	3,179	1,464	1,282
	<u>(2,768)</u>	<u>(1,169)</u>	<u>(868)</u>
Loss before income taxes and cumulative effect of accounting change	(2,768)	(1,169)	(868)
INCOME TAX BENEFIT	520	12	10
	<u>(2,248)</u>	<u>(1,157)</u>	<u>(858)</u>
Loss before cumulative effect of accounting change	(2,248)	(1,157)	(858)
CUMULATIVE EFFECT OF ACCOUNTING CHANGE	(266)	(10)	—
	<u>(2,514)</u>	<u>(1,167)</u>	<u>(858)</u>
Net loss	(2,514)	(1,167)	(858)
Dividends on preferred stock — redeemable	(3)	(1)	—
	<u>(2,517)</u>	<u>(1,168)</u>	<u>(858)</u>
Net loss applicable to common stock	\$ (2,517)	\$ (1,168)	\$ (858)
LOSS PER COMMON SHARE, basic and diluted	\$ (8.55)	\$ (4.33)	\$ (3.30)
Weighted average common shares outstanding, basic and diluted	294,440,261	269,594,386	225,697,775

The accompanying notes are an integral part of these consolidated financial statements.

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CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(dollars in millions)

	Class A Common	Class B Common	Additional Paid-In	Accumulated	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Stock	Stock	Capital	Deficit		
BALANCE, December 31, 1999	\$ —	\$ —	\$3,075	\$ (66)	\$ 2	\$ 3,011
Issuance of common stock related to acquisitions	—	—	178	—	—	178
Redeemable securities reclassified as equity	—	—	693	—	—	693
Unrealized loss on marketable securities available for sale	—	—	—	—	(2)	(2)
Option compensation expense, net (restated)	—	—	16	—	—	16
Loss on issuance of equity by subsidiary (restated)	—	—	(272)	—	—	(272)
Stock options exercised	—	—	1	—	—	1
Net loss (restated)	—	—	—	(858)	—	(858)
BALANCE, December 31, 2000 (restated)	—	—	3,691	(924)	—	2,767
Issuance of common stock related to acquisitions	—	—	2	—	—	2
Net proceeds from issuance of common stock	—	—	1,218	—	—	1,218
Redeemable securities reclassified as equity	—	—	9	—	—	9
Contributions from Charter Investment, Inc. (restated)	—	—	25	—	—	25
Changes in fair value of interest rate agreements	—	—	—	—	(17)	(17)
Option compensation expense, net (restated)	—	—	(3)	—	—	(3)
Loss on issuance of equity by subsidiary (restated)	—	—	(253)	—	—	(253)
Stock options exercised	—	—	5	—	—	5
Dividends on preferred stock — redeemable	—	—	—	(1)	—	(1)
Net loss (restated)	—	—	—	(1,167)	—	(1,167)
BALANCE, December 31, 2001 (restated)	—	—	4,694	(2,092)	(17)	2,585
Issuance of common stock related to acquisitions	—	—	2	—	—	2
Changes in fair value of interest rate agreements	—	—	—	—	(30)	(30)
Option compensation expense, net	—	—	2	—	—	2
Loss on issuance of equity by subsidiary	—	—	(1)	—	—	(1)
Dividends on preferred stock — redeemable	—	—	—	(3)	—	(3)
Net loss	—	—	—	(2,514)	—	(2,514)
BALANCE, December 31, 2002	\$ —	\$ —	\$4,697	\$ (4,609)	\$ (47)	\$ 41

The accompanying notes are an integral part of these consolidated financial statements.

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CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in millions)

	Year Ended December 31,		
	2002	2001	2000
		(restated)	(restated)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	\$ (2,514)	\$ (1,167)	\$ (853)
Adjustments to reconcile net loss to net cash flows from operating activities:			
Minority interest	(3,179)	(1,464)	(1,282)
Depreciation and amortization	1,437	2,682	2,398
Impairment of franchises	4,638	—	—
Option compensation expense, net	5	(5)	38
Noncash interest expense	395	295	174
Loss on equity investments	3	54	19
Loss on derivative instruments and hedging activities, net	115	50	—
Deferred income taxes	(520)	(12)	(10)
Cumulative effect of accounting change	266	10	—
Changes in operating assets and liabilities, net of effects from acquisitions:			
Accounts receivable	27	(73)	(130)
Prepaid expenses and other current assets	26	(11)	(2)
Accounts payable and accrued expenses	52	125	523
Receivables from and payables to related party, including deferred management fees	(3)	—	(35)
Other operating activities	—	5	(7)
Net cash flows from operating activities	748	489	823
CASH FLOWS FROM INVESTMENT ACTIVITIES:			
Purchases of property, plant and equipment	(2,222)	(3,001)	(2,536)
Payments for acquisitions, net of cash acquired	(139)	(1,755)	(1,188)
Purchases of investments	(12)	(3)	(59)
Other investing activities	10	(15)	32
Net cash flows from investing activities	(2,363)	(4,774)	(3,751)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of common stock	2	1,223	—
Borrowings of long-term debt	4,106	7,310	7,505
Repayments of long-term debt	(2,134)	(4,290)	(4,500)
Payments for debt issuance costs	(40)	(87)	(85)
Net cash flows from financing activities	1,934	4,156	2,920
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	319	(129)	(3)
CASH AND CASH EQUIVALENTS, beginning of period	2	131	134
CASH AND CASH EQUIVALENTS, end of period	\$ 321	\$ 2	\$ 131
CASH PAID FOR INTEREST	\$ 1,103	\$ 994	\$ 772
NONCASH TRANSACTIONS:			
Reclassification of redeemable securities to equity and minority interest	\$ —	\$ 1,105	\$ 742
Exchange of cable system for acquisition	—	25	—
Issuances of preferred stock - redeemable, as payment for acquisitions	—	51	—
Issuances of equity as partial payments for acquisitions	—	2	1,192

The accompanying notes are an integral part of these consolidated financial statements.

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CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2002, 2001 AND 2000 (dollars in millions, except where indicated)

1. Organization

Charter Communications, Inc. (Charter) is a holding company whose primary asset at December 31, 2002 is a 47% controlling common equity interest in Charter Communications Holding Company, LLC (Charter Holdco), which, in turn, is the sole owner of Charter Communications Holdings, LLC (Charter Holdings). Charter, Charter Holdco and its subsidiaries are collectively referred to herein as the "Company." The Company owns and operates cable systems that provide a full range of traditional analog television services to the home, along with advanced broadband services, including television on an advanced digital programming platform and high-speed Internet access. The Company also provides commercial high-speed data, video, telephony and Internet services as well as advertising sales and production services.

2. Liquidity and Capital Resources

The Company has incurred losses from operations of \$4.3 billion, \$1.2 billion and \$1.1 billion in 2002, 2001 and 2000, respectively. The Company's net cash flows from operating activities were \$748 million, \$489 million and \$828 million for the years ending December 31, 2002, 2001 and 2000, respectively. In addition, the Company has required significant cash to fund capital expenditures, debt service costs and ongoing operations. Historically the Company has funded liquidity and capital requirements through cash flows from operations, borrowing under the credit facilities of the Company's subsidiaries, and by issuances of debt and equity securities. The mix of funding sources changes from period to period, but for the year ended December 31, 2002, approximately 70% of the Company's funding requirements were from cash flows from operations, 16% was from borrowings under the credit facilities of the Company's subsidiaries and 14% was for the issuance of debt by the Company's subsidiaries.

The Company expects that cash on hand, cash flows from operations and the funds available under the bank facilities and borrowings under the Vulcan Inc. commitment described in Note 10 will be adequate to meet its 2003 cash needs. However, the bank facilities are subject to certain restrictive covenants, portions of which are subject to the operating results of the Company's subsidiaries. The Company's 2003 operating plan maintains compliance with these covenants. If the Company's actual operating results do not maintain compliance with these covenants, or if other events of noncompliance occur, funding under the bank facilities may not be available and defaults on some or potentially all debt obligations could occur. In addition, no assurances can be given that the Company may not experience liquidity problems because of adverse market conditions or other unfavorable events or if the Company does not obtain sufficient additional financing on a timely basis. The Company has arranged additional availability as described in Note 10.

The indenture governing the Charter Holdco notes permits Charter Holdings and its subsidiaries to make payments to the extent of its outstanding unsubordinated intercompany debt to Charter Holdco, which had an aggregate principal amount of approximately \$73 million as of December 31, 2002. That amount is only sufficient to enable Charter to make interest payments on its convertible senior notes through December, 2003, and is not sufficient to enable Charter to make interest payments beginning in April, 2004 or to repay all or any portion of its convertible senior notes at maturity.

Accordingly, Charter will not be able to make interest payments beginning in April, 2004, or principal payments at maturity in 2005 and 2006, with respect to its convertible senior notes unless it can obtain additional financing or it receives distributions or other payments from its subsidiaries. The indentures governing the Charter Holdings notes permit Charter Holdings to make distributions to Charter Holdco only if, at the time of distribution, Charter Holdings can meet a leverage ratio of 3.75 to 1.0, there is no default under the indentures and other specified tests are met.

The Company's long-term financing structure as of December 31, 2002 includes \$7.3 billion of credit facility debt, \$9.5 billion of high-yield debt and \$1.4 billion of convertible subordinated debentures. Approximately \$236 million of this financing matures during 2003. Note 10 discusses the Company's current availability and long-term obligations, interest obligations and provides a schedule of maturity.

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CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2002, 2001 AND 2000 (dollars in millions, except where indicated)

3. Restatements of Consolidated Financial Results

The Company has identified a series of adjustments that have resulted in the restatement of the previously issued financial statements for the years ended December 31, 2001 and 2000. These adjustments also resulted in the restatements of previously announced quarterly results for the first three quarters of fiscal 2002 and each quarter during fiscal 2001 and 2000, as more fully described in Note 23. In summary, the adjustments are grouped into the following categories: (i) launch incentives from programmers; (ii) customer incentives and inducements; (iii) capitalized labor and overhead costs; (iv) customer acquisition costs; (v) rebuild and upgrade of cable systems; (vi) deferred tax liabilities/franchise assets; and (vii) other adjustments. These adjustments reduced revenue for the years ended December 31, 2001 and 2000 by \$146 million and \$108 million, respectively. The Company's consolidated net loss decreased by \$11 million for the year ended December 31, 2001. Net loss increased by \$29 million for the year ended December 31, 2000, primarily due to adjustments related to the original accounting for acquisitions and for elements of the rebuild and upgrade activities. In addition, as a result of certain of these adjustments, the Company's statements of cash flows have been restated. Cash flows from operations for the years ended December 31, 2001 and 2000 were reduced by \$30 million and \$303 million, respectively. The more significant categories of adjustment relate to the following as outlined below.

Launch Incentives from Programmers. Amounts previously recognized as advertising revenue in connection with the launch of new programming channels have been deferred and recorded in other long-term liabilities in the year such launch support was provided, and amortized as a reduction of programming costs based upon the relevant contract term. These adjustments decreased revenue by \$118 million and \$76 million for the years ended December 31, 2001 and 2000, respectively. Additionally, for the year ended December 31, 2000, the Company increased marketing expense by \$24 million for other promotional activities associated with launching new programming services previously deferred and subsequently amortized. The corresponding amortization of such deferred amounts reduced programming expenses by \$27 million and \$5 million for the years ended December 31, 2001 and 2000, respectively.

Customer Incentives and Inducements. Marketing inducements paid to encourage potential customers to switch from satellite providers to Charter branded services and enter into multi-period service agreements were previously deferred and recorded as property, plant and equipment and recognized as depreciation and amortization expense over the life of customer contracts. These amounts have been restated as a reduction of revenues in the period such inducements were paid. Revenue declined \$19 million and \$2 million for the years ended December 31, 2001 and 2000, respectively. Substantially all of these amounts are offset by reduced depreciation and amortization expense.

Capitalized Labor and Overhead Costs. Certain elements of labor costs and related overhead allocations previously capitalized as property, plant and equipment as part of the Company's rebuild activities, customer installations and new service introductions have been expensed in the period incurred. Such adjustments increased operating expenses by \$93 million and \$52 million for the years ended December 31, 2001 and 2000, respectively.

Customer Acquisition Costs. Certain customer acquisition campaigns were conducted through third-party contractors in 2000, 2001 and portions of 2002. The costs of these campaigns were originally deferred and recorded as other assets and recognized as amortization expense over the average customer contract life. These amounts have been reported as marketing expense in the period incurred and totaled \$59 million and \$4 million and for the years ended December 31, 2001 and 2000, respectively. The Company discontinued this program in the third quarter of 2002 as contracts for third-party vendors expired. Substantially all of these amounts are offset by reduced depreciation and amortization expense.

Rebuild and Upgrade of Cable Systems. In 2000, the Company initiated a three-year program to replace and upgrade a substantial portion of its network. In connection with this plan, the Company assessed the carrying value of, and the associated depreciable lives of, various assets to be replaced. It was determined that \$1 billion of cable distribution system assets, originally treated as subject to replacement, were not part of the original replacement plan but were to be upgraded and have remained in service. The Company also determined that certain assets subject to replacement during the upgrade program were misstated in the allocation of the purchase price of the acquisition. This adjustment is a reduction to property, plant and equipment and increased franchise costs of approximately \$627

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CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
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million as a result of this finding. In addition, the depreciation period for the replacement assets was adjusted to more closely align with the intended service period of these assets rather than the three-year straight-line life originally assigned. As a result, adjustments were recorded to reduce depreciation expense \$330 million and \$119 million in the years ending 2001 and 2000, respectively.

Deferred Tax Liabilities/Franchise Assets. Adjustments were made to record deferred tax liabilities associated with the acquisition of various cable television businesses. These adjustments increased amounts assigned to franchise assets by \$1.4 billion with a corresponding increase in deferred tax liabilities of \$1.2 billion. The balance of the entry was recorded to equity and minority interest. In addition, as described above, a correction was made to reduce amounts assigned in purchase accounting to assets identified for replacement over the three-year period of the Company's rebuild and upgrade of its network. This reduced the amount assigned to the network assets to be retained and increased the amount assigned to franchise assets by approximately \$627 million with a resulting increase in amortization expense for the years restated. Such adjustments increased amortization expense by \$130 million and \$121 million, respectively, for the years ended December 31, 2001 and 2000.

Other Adjustments. In addition to the items described above, reductions to 2000 revenues include the reversal of certain advertising revenues from equipment vendors. Other adjustments of expenses include expensing certain marketing and customer acquisition costs previously charged against purchase accounting reserves, certain tax reclassifications from tax expense to operating costs, reclassifying management fee revenue from a joint venture to offset losses from investments and adjustments to option compensation expense. The net impact of these adjustments to net loss is an increase of \$38 million and a decrease of \$10 million, respectively, for the years ended December 31, 2001 and 2000.

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CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
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The following table sets forth the consolidated balance sheet for the Company, showing previously reported and restated amounts, as of December 31, 2001 (in millions):

	As previously reported	As restated
CURRENT ASSETS:		
Cash and cash equivalents	\$ 2	\$ 2
Accounts receivable, net	290	292
Receivables from related parties	5	5
Prepaid expenses and other current assets	70	70
Total current assets	367	369
INVESTMENT IN CABLE PROPERTIES:		
Property, plant and equipment, net	7,150	6,914
Franchises, net	17,139	18,911
Total investment in cable properties, net	24,289	25,825
OTHER ASSETS	306	269
Total assets	\$24,962	\$26,463
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 1,375	\$ 1,379
Total current liabilities	1,375	1,379
LONG-TERM DEBT	16,343	16,343
DEFERRED MANAGEMENT FEES — RELATED PARTY	14	14
OTHER LONG-TERM LIABILITIES	341	1,682
MINORITY INTEREST	3,976	4,409
PREFERRED STOCK — REDEEMABLE	51	51
SHAREHOLDERS' EQUITY:		
Class A common stock	—	—
Class B common stock	—	—
Preferred stock	—	—
Additional paid-in capital	4,953	4,694
Accumulated deficit	(2,073)	(2,092)
Accumulated other comprehensive loss	(18)	(17)
Total shareholders' equity	2,862	2,585
Total liabilities and shareholders' equity	\$24,962	\$26,463

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CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2002, 2001 AND 2000
(dollars in millions, except where indicated)

The following table sets forth the consolidated statement of operations for the Company, showing previously reported and restated amounts, for the year ended December 31, 2001 (in millions, except share data):

	As previously reported	As restated
REVENUES	\$ 3,953	\$ 3,807
COSTS AND EXPENSES:		
Operating (excluding depreciation and amortization and other items listed below)	1,326	1,480
Selling, general and administrative	841	832
Depreciation and amortization	3,010	2,682
Option compensation expense, net	(46)	(5)
Special charges	18	18
	5,149	5,007
Loss from operations	(1,196)	(1,200)
OTHER INCOME (EXPENSE):		
Interest expense, net	(1,312)	(1,313)
Loss on equity investments	(54)	(54)
Other, net	(94)	(66)
	(1,460)	(1,433)
Loss before minority interest, income taxes and cumulative effect of accounting change	(2,656)	(2,633)
MINORITY INTEREST	1,478	1,464
Loss before income taxes and cumulative effect of accounting change	(1,178)	(1,169)
INCOME TAX BENEFIT	—	12
Loss before cumulative effect of accounting change	(1,178)	(1,157)
CUMULATIVE EFFECT OF ACCOUNTING CHANGE	—	(10)
Net loss	(1,178)	(1,167)
Dividends on preferred stock - redeemable	(1)	(1)
Net loss applicable to common stock	\$ (1,179)	\$ (1,168)
LOSS PER COMMON SHARE, basic and diluted	\$ (4.37)	\$ (4.33)
Weighted average common shares outstanding, basic and diluted	269,594,386	269,594,386

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CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2002, 2001 AND 2000
(dollars in millions, except where indicated)

The following table sets forth the consolidated balance sheet for the Company, showing previously reported and restated amounts, as of December 31, 2000 (in millions):

	As previously reported	As restated
CURRENT ASSETS:		
Cash and cash equivalents	\$ 131	\$ 131
Accounts receivable, net	218	209
Receivables from related parties	6	—
Prepaid expenses and other current assets	78	87
Total current assets	433	427
INVESTMENT IN CABLE PROPERTIES:		
Property, plant and equipment, net	5,267	4,829
Franchises, net	17,069	18,835
Total investment in cable properties, net	22,336	23,664
OTHER ASSETS	275	261
Total assets	\$23,044	\$24,352
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 1,367	\$ 1,343
Total current liabilities	1,367	1,343
LONG-TERM DEBT	13,061	13,061
DEFERRED MANAGEMENT FEES — RELATED PARTY	14	14
OTHER LONG-TERM LIABILITIES	285	1,517
MINORITY INTEREST	4,090	4,546
REDEEMABLE SECURITIES	1,104	1,104
SHAREHOLDERS' EQUITY:		
Class A common stock	—	—
Class B common stock	—	—
Preferred stock	—	—
Additional paid-in capital	4,018	3,691
Accumulated deficit	(895)	(924)
Total shareholders' equity	3,123	2,767
Total liabilities and shareholders' equity	\$23,044	\$24,352

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CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(dollars in millions, except where indicated)

The following table sets forth the consolidated statement of operations for the Company, showing previously reported and restated amounts, for the year ended December 31, 2000 (in millions, except share data):

	As previously reported	As restated
REVENUES	\$ 3,249	\$ 3,141
COSTS AND EXPENSES:		
Operating (excluding depreciation and amortization and other items listed below)	1,036	1,185
Selling, general and administrative	670	608
Depreciation and amortization	2,473	2,398
Option compensation expense, net	41	38
	4,220	4,229
Loss from operations	(971)	(1,038)
OTHER INCOME (EXPENSE):		
Interest expense, net	(1,052)	(1,042)
Loss on equity investments	(19)	(19)
Other, net	(13)	(1)
	(1,084)	(1,062)
Loss before minority interest and income taxes	(2,055)	(2,150)
MINORITY INTEREST	1,226	1,282
Loss before income taxes	(829)	(868)
INCOME TAX BENEFIT	—	10
Net loss	\$ (829)	\$ (858)
LOSS PER COMMON SHARE, basic and diluted	\$ (3.67)	\$ (3.80)
Weighted average common shares outstanding, basic and diluted	225,697,775	225,697,775

The following table sets forth selected consolidated statements of cash flows information for the Company, showing previously reported and restated amounts, for the years ended December 31, 2001 and 2000 (in millions):

	2001		2000	
	As previously reported	As restated	As previously reported	As restated
Net cash from operating activities	\$ 519	\$ 489	\$ 1,131	\$ 828
Net cash from investing activities	(4,809)	(4,774)	(4,054)	(3,751)
Net cash from financing activities	\$ 4,162	\$ 4,156	\$ 2,920	\$ 2,920

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CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2002, 2001 AND 2000 (dollars in millions, except where indicated)

4. Summary of Significant Accounting Policies

Basis of Consolidation and Presentation

The consolidated financial statements of the Company include the accounts of Charter, Charter Holdco, Charter Holdings and all of their wholly-owned subsidiaries and those subsidiaries over which Charter exercises voting control. Currently, Charter Holdco is the only subsidiary in which the Company consolidates on the basis of voting control. All significant intercompany accounts and transactions among consolidated entities have been eliminated. All amounts presented for 2000 and 2001 in the financial statements and accompanying notes have been adjusted to reflect the restated results in Note 3.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant judgments and estimates include capitalization of labor and overhead costs, depreciation and amortization costs, impairments of property, plant and equipment, franchises and goodwill, income taxes and other contingencies. Actual results could differ from those estimates.

Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. These investments are carried at cost, which approximates market value.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost, including all material labor and certain indirect costs associated with the construction of cable transmission and distribution facilities. Costs associated with initial customer installations and the additions of network equipment necessary to enable advanced services are capitalized. Costs capitalized as part of initial customer installations include materials, labor, and certain indirect costs. These indirect costs are associated with the activities of the Company's personnel who assist in connecting and activating the new service and consist of compensation and overhead costs associated with these support functions. Overhead costs primarily include employee benefits and payroll taxes, direct variable costs associated with capitalizable activities, consisting primarily of installation and construction vehicle costs, the cost of dispatch personnel and indirect costs directly attributable to capitalizable activities. The costs of disconnecting service at a customer's dwelling or reconnecting service to a previously installed dwelling are charged to operating expense in the period incurred. Costs for repairs and maintenance are charged to operating expense as incurred, while equipment replacement and betterments, including replacement of cable drops from the pole to the dwelling, are capitalized.

Depreciation is recorded using the straight-line method over management's estimate of the useful lives of the related assets as follows:

Cable distribution systems	7-15 years
Customer equipment and installations	3-5 years
Vehicles and equipment	1-5 years
Buildings and household improvements	5-15 years
Furniture and fixtures	5 years

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CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2002, 2001 AND 2000 (dollars in millions, except where indicated)

Franchises

Franchise rights acquired through the purchase of cable systems represent management's estimate of fair value at the date of acquisition and generally are reviewed to determine if the franchise has a finite life or an indefinite life as defined by Statement of Financial Accounting Standards (SFAS) No. 142. On January 1, 2002, the Company adopted SFAS No. 142, which eliminates the amortization of goodwill and indefinite lived intangible assets. Accordingly, beginning January 1, 2002, all franchises that qualify for indefinite life treatment under SFAS No. 142 are no longer amortized against earnings but instead are tested for impairment annually as of October 1, or more frequently as warranted by events or changes in circumstances (See Note 3). Certain franchises did not qualify for indefinite-life treatment due to technological or operational factors that limit their lives. These franchise costs are amortized on a straight-line basis over 10 years. Costs incurred in renewing cable franchises are deferred and amortized over 10 years.

Prior to the adoption of SFAS No. 142, costs incurred in obtaining and renewing cable franchises were deferred and amortized using the straight-line method over a period of 15 years. Franchise rights acquired through the purchase of cable systems were generally amortized using the straight-line method over a period of 15 years. The period of 15 years was management's best estimate of the useful lives of the franchises and assumed that substantially all of those franchises that expired during the period would be renewed but not indefinitely. The Company evaluated the recoverability of franchises for impairment when events or changes in circumstances indicated that the carrying amount of an asset may not be recoverable. Because substantially all of the Company's franchise rights have been acquired in the past several years, at the time of acquisition management believed the Company did not have sufficient experience with the local franchise authorities to conclude that renewals of franchises could be accomplished indefinitely.

The Company believes that facts and circumstances have changed to enable it to conclude that substantially all of its franchises will be renewed indefinitely, with those franchises where technological or operational factors limit their lives continuing to be amortized. The Company has sufficiently upgraded the technological state of its cable systems and now has sufficient experience with the local franchise authorities where it acquired franchises to conclude substantially all franchises will be renewed indefinitely.

Other Assets

Other assets primarily include goodwill, deferred financing costs and investments in equity securities. Costs related to borrowings are deferred and amortized to interest expense using the effective interest method over the terms of the related borrowings. As of December 31, 2002, 2001 and 2000, other assets include \$231 million, \$230 million and \$171 million of deferred financing costs, net of accumulated amortization of \$106 million, \$67 million and \$35 million, respectively.

Investments in equity securities are accounted for at cost, under the equity method of accounting or in accordance with Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Charter recognizes losses for any decline in value considered to be other than temporary. Certain marketable equity securities are classified as available-for-sale and reported at market value with unrealized gains and losses recorded as accumulated other comprehensive income or loss.

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CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2002, 2001 AND 2000 (dollars in millions, except where indicated)

The following summarizes investment information as of and for the years ended December 31, 2002, 2001 and 2000 (in millions):

	Carrying Value at December 31.			Gain (loss) for the Year Ended December 31.		
	2002	2001	2000	2002	2001	2000
Equity investments, under the cost method	\$ 17	\$ 13	\$ 14	\$ —	\$ (8)	\$ (1)
Equity investments, under the equity method	16	12	49	(5)	(42)	(8)
Marketable securities, at market value	—	4	4	2	(4)	1
	<u>\$ 33</u>	<u>\$ 29</u>	<u>\$ 67</u>	<u>\$ (3)</u>	<u>\$ (54)</u>	<u>\$ (8)</u>

Valuation of Property, Plant and Equipment

The Company evaluates the recoverability of property, plant and equipment for impairment when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Such events or changes in circumstances could include such factors as changes in technological advances, fluctuations in the fair value of such assets, adverse changes in relationships with local franchise authorities, adverse changes in market conditions or poor operating results. If a review indicates that the carrying value of such asset is not recoverable from estimated undiscounted cash flows, the carrying value of such asset is reduced to its estimated fair value. While the Company believes that its estimates of future cash flows are reasonable, different assumptions regarding such cash flows could materially affect its evaluations of asset recoverability. No impairment of property, plant and equipment occurred in 2002, 2001 and 2000.

Derivative Financial Instruments

The Company uses interest rate risk management derivative instruments, such as interest rate swap agreements, interest rate cap agreements and interest rate collar agreements (collectively referred to herein as interest rate agreements) as required under the terms of the credit facilities of the Company's subsidiaries. The Company's policy is to manage interest costs using a mix of fixed and variable rate debt. Using interest rate swap agreements, the Company agrees to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to an agreed-upon notional principal amount. Interest rate cap agreements are used to lock in a maximum interest rate should variable rates rise, but enable the Company to otherwise pay lower market rates. Interest rate collar agreements are used to limit exposure to and benefits from interest rate fluctuations on variable rate debt to within a certain range of rates. The Company does not hold or issue any derivative financial instruments for trading purposes.

Revenue Recognition

Revenues from analog, digital and high-speed data services are recognized when the related services are provided. Advertising sales are recognized in the period that the advertisements are broadcast. Local governmental authorities impose franchise fees on the Company ranging up to a federally mandated maximum of 5% of gross revenues as defined in the franchise agreement. Such fees are collected on a monthly basis from the Company's customers and are periodically remitted to local franchise authorities. Franchise fees collected and paid are reported as revenues and expenses, respectively.

Programming Costs

The Company has various contracts to obtain analog, digital and premium programming from program suppliers whose compensation is typically based on a flat fee per customer. The cost of the right to exhibit network programming under such arrangements is recorded in operating expenses in the month the programming is available for exhibition. Programming costs are paid each month based on calculations performed by the Company and are subject to adjustment based on periodic audits performed by the programmers. Additionally, certain programming contracts contain launch incentives to be paid by the programmers. The Company receives these upfront payments related to the promotion and activation of the programmer's cable television channel and defers recognition of the

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CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2002, 2001 AND 2000 (dollars in millions, except where indicated)

launch incentives over the life of the programming agreement as an offset to programming expense. This offset to programming expense was \$57 million, \$35 million and \$4 million for the years ended December 31, 2002, 2001 and 2000, respectively. Total programming costs paid to programmers were \$1.2 billion, \$951 million and \$763 million for the years ended December 31, 2002, 2001 and 2000, respectively. As of December 31, 2002, 2001 and 2000, the deferred amount of launch incentives, included in other long-term liabilities, totaled \$210 million, \$215 million and \$126 million, respectively.

Advertising Costs

Advertising costs, including advertising associated with the launch of cable channels, are generally expensed as costs are incurred. Advertising expense was \$74 million, \$52 million and \$60 million for the years ended December 31, 2002, 2001 and 2000, respectively.

Stock-Based Compensation

The Company has historically accounted for stock-based compensation in accordance with Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations, as permitted by SFAS No. 123, "Accounting for Stock-Based Compensation." On January 1, 2003, the Company adopted the fair value measurement provisions of SFAS No. 123 using the prospective method under which the Company will recognize compensation expense of a stock-based award to an employee over the vesting period based on the fair value of the award on the grant date consistent with the method described in Financial Accounting Standards Board Interpretation No. 28 (FIN 28), *Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans*. Adoption of these provisions will result in utilizing a preferable accounting method as the consolidated financial statements will present the estimated fair value of stock-based compensation in expense consistently with other forms of compensation and other expense associated with goods and services received for equity instruments. In accordance with SFAS No. 148, the fair value method will be applied only to awards granted or modified after January 1, 2003, whereas awards granted prior to such date will continue to be accounted for under APB No. 25, unless they are modified or settled in cash. Management believes the adoption of these provisions will not have a material impact on the consolidated results of operations or financial position of the Company. The ongoing effect on consolidated results of operations or financial position will be dependent upon future stock based compensation awards granted by the Company. Had the Company adopted SFAS No. 123 as of January 1, 2002, using the prospective method, option compensation expense for the year ended December 31, 2002 would have been approximately \$2 million.

SFAS No. 123 requires pro forma disclosure of the impact on earnings as if the compensation expense for these plans had been determined using the fair value method. The following table presents the Company's net loss and loss per share as reported and the pro forma amounts that would have been reported using the fair value method under SFAS 123 for the years presented:

	Year Ended December 31,		
	2002	2001	2000
Net loss applicable to common stock (in millions):	\$ (2,517)	\$ (1,168)	\$ (858)
Pro forma	(2,571)	(1,225)	(878)
Loss per common share, basic and diluted:	(8.55)	(4.33)	(3.80)
Pro forma	(8.73)	(4.53)	(3.89)

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model. The following weighted average assumptions were used for grants during the years ended December 31, 2002, 2001 and 2000, respectively: risk-free interest rates of 3.6%, 4.7% and 6.5%; expected volatility of 64.2%, 56.2% and 43.3%; and expected lives of 3.3 years, 3.7 years and 3.5 years, respectively. The valuations assume no dividends are paid.

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Income Taxes

The Company recognizes deferred tax assets and liabilities for temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities and expected benefits of utilizing net operating loss carryforwards. The impact on deferred taxes of changes in tax rates and tax law, if any applied to the years during which temporary differences are expected to be settled, are reflected in the consolidated financial statements in the period of enactment (see Note 22).

Minority Interest

Minority interest represents total members' equity of Charter Holdco not owned by Charter, plus preferred membership interests in an indirect subsidiary of Charter held by certain sellers of the Bresnan systems, less redeemable securities. Minority interest totaled \$1.0 billion, \$4.4 billion and \$4.5 billion as of December 31, 2002, 2001 and 2000, respectively, on the accompanying consolidated balance sheets. Gains or losses arising from issuances by Charter Holdco of its membership units are recorded as capital transactions thereby increasing or decreasing shareholders' equity and decreasing or increasing minority interest on the consolidated balance sheets. These gains (losses) totaled (\$1) million, (\$253) million and (\$272) million for the years ended December 31, 2002, 2001 and 2000, respectively, on the accompanying consolidated statements of changes in shareholders' equity. Operating losses are allocated to the minority owners based on their ownership percentage, thereby reducing the Company's net loss.

Loss per Common Share

Basic loss per common share is computed by dividing the net loss applicable to common stock by 294,440,261 shares, 269,594,386 shares and 225,697,775 shares for the years ended December 31, 2002, 2001 and 2000, representing the weighted-average common shares outstanding during the respective periods. Diluted loss per common share equals basic loss per common share for the periods presented, as the effect of stock options is antidilutive because the Company incurred net losses. All membership units of Charter Holdco are exchangeable on a one-for-one basis into common stock of Charter at the option of the holders. Should the holders exchange units for shares, the effect would not be dilutive.

Segments

SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information," established standards for reporting information about operating segment in annual financial statements and in interim financial reports issued to shareholders. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated on a regular basis by the chief operating decision maker, or decision making group, in deciding how to allocate resources to an individual segment and in assessing performance of the segment.

The Company's operations are managed on the basis of distinct geographic regional and divisional operating segments. The Company has evaluated the criteria for aggregation of the geographic operating segments under paragraph 17 of SFAS No. 131 and believes it meets each of the respective criteria set forth. The Company delivers similar products and services within each of its geographic divisional operations. Each geographic and divisional service area utilizes similar means for delivering the programming of the Company's services; have similarity in the type or class of customer receiving the products and services; distributes the Company's services over a unified network; and operates within a consistent regulatory environment. In addition, each of the geographic regional and divisional operating segments has similar economic characteristics. Accordingly, management has determined that the Company has one reportable segment, broadband services.

5. Acquisitions

On February 28, 2002, CC Systems, LLC, a subsidiary of the Company, and High Speed Access Corp. (HSA) closed the Company's acquisition from HSA of the contracts and associated assets, and assumed related liabilities.

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that served certain of the Company's high-speed data customers. At closing, the Company paid \$78 million in cash and delivered 37,000 shares of HSA's Series D convertible preferred stock and all the warrants to buy HSA common stock owned by the Company. An additional \$2 million of purchase price was retained to secure indemnity claims. The purchase price has been allocated to assets acquired and liabilities assumed based on fair values as determined in the fourth quarter of 2002 by a third-party valuation expert, including \$8 million assigned to intangible assets and amortized over an average useful life of three years and \$54 million assigned to goodwill. The finalization of the purchase price did not have a material effect on amortization expense previously reported. During the period from 1997 to 2000, certain subsidiaries of the Company entered into Internet-access related service agreements with HSA, and both Vulcan Ventures and certain of the Company's subsidiaries made equity investments in HSA. (See Note 23 for additional information).

In April 2002, Interlink Communications Partners, LLC, Rifkin Acquisition Partners, LLC and Charter Communications Entertainment I, LLC, each an indirect, wholly-owned subsidiary of Charter Holdings, completed the purchase of certain assets of Enstar Income Program II-2, L.P., Enstar Income Program IV-3, L.P., Enstar Income/Growth Program Six-A, L.P., Enstar Cable of Macoupin County and Enstar IV/PBD Systems Venture, serving in the aggregate approximately 11,600 (unaudited) customers, for a total cash purchase price of \$48 million. In September 2002, Charter Communications Entertainment I, LLC purchased all of Enstar Income Program II-1, L.P.'s Illinois cable television systems, serving approximately 6,400 (unaudited) customers, for a cash purchase price of \$15 million. Enstar Communications Corporation, a direct subsidiary of Charter Holdco, is a general partner of the Enstar limited partnerships but does not exercise control over them. The purchase prices were allocated to assets acquired based on fair values, including \$41 million assigned to franchises and \$4 million assigned to customer relationships amortized over a useful life of three years.

During the second and third quarters in 2001, the Company acquired cable systems in two separate transactions. In connection with the acquisitions, the Company paid aggregate cash consideration of \$1.8 billion, transferred a cable system valued at \$25 million, issued 305,664 shares of Charter Series A Convertible Redeemable Preferred Stock valued at \$51 million, and in the first quarter of 2003 issued 39,595 additional shares of Series A Convertible Redeemable Preferred Stock to certain sellers subject to certain holdback provisions of the acquisition agreement valued at \$4 million. The purchase prices were allocated to assets acquired and liabilities assumed based on fair values, including amounts assigned to franchises of \$1.5 billion.

During 2000, the Company acquired cable systems in five separate transactions for an aggregate purchase price of \$1.2 billion, net of cash acquired, excluding debt assumed of \$963 million. In connection with the acquisitions, Charter issued shares of Class A common stock valued at approximately \$178 million, and Charter Holdco and an indirect subsidiary of Charter Holdco issued equity interests totaling \$385 million and \$629 million, respectively. The purchase prices were allocated to assets and liabilities assumed based on relative fair values, including amounts assigned to franchises of \$3.3 billion.

The transactions described above were accounted for using the purchase method of accounting, and, accordingly, the results of operations of the acquired assets and assumed liabilities have been included in the consolidated financial statements from their respective dates of acquisition. The purchase prices were allocated to assets acquired and liabilities assumed based on fair values.

The summarized operating results of the Company that follow are presented on a pro forma basis as if the following had occurred on January 1, 2000: all acquisitions and dispositions completed during 2000 and 2001; the issuance of Charter Holdings senior notes and senior discount notes in January 2002 and 2001; the issuance of Charter Holdings senior notes and senior discount notes in May 2001; and the issuance of and sale by Charter of convertible senior notes and Class A common stock in May 2001. Adjustments have been made to give effect to amortization of franchises acquired prior to July 1, 2001, interest expense, minority interest, and certain other adjustments. Pro forma results for the year ended December 31, 2002 would not differ significantly from historical results.

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	Year Ended December 31,	
	2001	2000
	(in millions, except per share data)	
Revenues	\$ 3,969	\$ 3,501
Loss from operations	(1,200)	(1,121)
Loss before minority interest	(2,727)	(2,426)
Net loss	(1,251)	(1,134)
Loss per common share, basic and diluted	(4.64)	(5.02)

The unaudited pro forma financial information has been presented for comparative purposes and does not purport to be indicative of the consolidated results of operations had these transactions been completed as of the assumed date or which may be obtained in the future.

6. Allowance for Doubtful Accounts

Activity in the allowance for doubtful accounts is summarized as follows for the years presented (in millions):

	Year Ended December 31,		
	2002	2001	2000
Balance, beginning of year	\$ 33	\$ 12	\$ 11
Acquisitions of cable systems	—	1	1
Charged to expense	108	95	46
Uncollected balances written off, net of recoveries	(122)	(75)	(46)
Balance, end of year	\$ 19	\$ 33	\$ 12

7. Property, Plant and Equipment

Property, plant and equipment consists of the following as of December 31, 2002, 2001 and 2000 (in millions):

	2002	2001	2000
Cable distribution systems	\$ 8,950	\$ 7,877	\$ 5,289
Land, buildings and leasehold improvements	580	506	282
Vehicles and equipment	783	459	408
	10,313	8,842	5,979
Less: accumulated depreciation	(2,634)	(1,923)	(1,150)
	\$ 7,679	\$ 6,914	\$ 4,829

The Company periodically evaluates the estimated useful lives used to depreciate its assets and the estimated amount of assets that will be abandoned or have minimal use in the future. A significant change in assumptions about the extent or timing of future asset retirements, or in the Company's upgrade program, could materially affect future depreciation expense.

For the years ended December 31, 2002, 2001 and 2000, depreciation expense was \$1.4 billion, \$1.2 billion, and \$1.0 billion, respectively.

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8. Franchises and Goodwill

On January 1, 2002, the Company adopted SFAS No. 142, which eliminates the amortization of indefinite lived intangible assets. Accordingly, beginning January 1, 2002, all franchises that qualify for indefinite life treatment under SFAS No. 142 are no longer amortized against earnings but instead will be tested for impairment annually, or more frequently as warranted by events or changes in circumstances. During the first quarter of 2002, the Company had an independent appraiser perform valuations of its franchises as of January 1, 2002. Based on the guidance prescribed in Emerging Issues Task Force (EITF) Issue No. 02-7, *Unit of Accounting for Testing of Impairment of Indefinite-Lived Intangible Assets*, franchises were aggregated into essentially inseparable asset groups to conduct the valuations. The asset groups generally represent geographic clusters of the Company's cable systems, which management believes represents the highest and best use of those assets. Fair value was determined based on estimated discounted future cash flows using reasonable and appropriate assumptions that are consistent with internal forecasts. As a result, the Company determined that franchises were impaired and recorded the cumulative effect of a change in accounting principle of \$266 million (approximately \$573 million before minority interest effects). The effect of adoption was to increase net loss and loss per share by \$266 million and \$0.90, respectively. As required by SFAS No. 142, the standard has not been retroactively applied to the results for the period prior to adoption.

The Company performed its annual impairment assessment on October 1, 2002 using an independent third-party appraiser and following the guidance of EITF Issue 02-17, *Recognition of Customer Relationship Intangible Assets Acquired in a Business Combination*, which was issued in October 2002 and requires the consideration of assumptions that marketplace participants would consider, such as expectations of future contract renewals and other benefits related to the intangible asset. Revised earnings forecasts and the methodology required by SFAS No. 142 which excludes certain intangibles led to recognition of a \$4.6 billion impairment in the fourth quarter of 2002.

The independent third-party appraiser's valuation as of October 1, 2002 yielded an enterprise value of approximately \$25 billion, which included \$3 billion assigned to customer relationships. SFAS No. 142 does not permit the recognition of the customer relationship asset not previously recognized. Accordingly, the analysis of the impairment could not include approximately \$373 million and \$2.9 billion attributable to customer relationship values as of January 1, 2002 and October 1, 2002, respectively.

In determining whether its franchises have an indefinite life, the Company considered the exclusivity of the franchise, its expected costs of franchise renewals, and the technological state of the associated cable systems with a view to whether or not the Company is in compliance with any technology upgrading requirements. Certain franchises did not qualify for indefinite-life treatment due to technological or operational factors that limit their lives. These franchise costs will be amortized on a straight-line basis over 10 years.

The effect of the adoption of SFAS No. 142 as of December 31, 2002 and 2001 is presented in the following table (in millions):

	December 31.								
	2002			2001			2000		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Indefinite-lived intangible assets:									
Franchises with indefinite lives	\$17,076	\$ 3,428	\$13,648	\$22,255	\$ 3,428	\$18,827	\$20,742	\$ 2,000	\$18,742
Goodwill	54	—	54	—	—	—	—	—	—
	<u>\$17,130</u>	<u>\$ 3,428</u>	<u>\$13,702</u>	<u>\$22,255</u>	<u>\$ 3,428</u>	<u>\$18,827</u>	<u>\$20,742</u>	<u>\$ 2,000</u>	<u>\$18,742</u>
Finite-lived intangible assets:									
Franchises with finite lives	\$ 103	\$ 24	\$ 79	\$ 99	\$ 15	\$ 84	\$ 99	\$ 6	\$ 93

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Franchise amortization expense for the year ended December 31, 2002 was \$9 million, which represents the amortization relating to franchises that did not qualify for indefinite-life treatment under SFAS No. 142, including costs associated with franchise renewals. For each of the next five years, amortization expense relating to these franchises is expected to be approximately \$3 million. Franchise amortization expense for the years ended December 31, 2001 and 2000 was \$1.4 billion and \$1.4 billion, respectively.

As required by SFAS No. 142, the standard has not been retroactively applied to the results for the period prior to adoption. A reconciliation of net loss for the year ended December 31, 2002, 2001 and 2000, as if SFAS No. 142 had been adopted as of January 1, 2000, is presented below (in millions):

	Year ended December 31,		
	2002	2001	2000
NET LOSS:			
Reported net loss applicable to common stock	\$ (2,517)	\$ (1,168)	\$ (858)
Add back: amortization of indefinite-lived franchises	—	1,453	1,341
Less: minority interest	—	(808)	(800)
Adjusted net loss applicable to common stock	<u>\$ (2,517)</u>	<u>\$ (523)</u>	<u>\$ (317)</u>
BASIC AND DILUTED LOSS PER COMMON SHARE:			
Reported net loss per share	\$ (8.55)	\$ (4.33)	\$ (3.80)
Add back: amortization of indefinite-lived franchises	—	5.39	5.94
Less: minority interest	—	(3.00)	(3.54)
Adjusted net loss per share	<u>\$ (8.55)</u>	<u>\$ (1.94)</u>	<u>\$ (1.40)</u>

9. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of the following as of December 31, 2002, 2001 and 2000 (in millions):

	2002	2001	2000
Accounts payable	\$ 290	\$ 297	\$ 364
Capital expenditures	141	196	285
Accrued interest	243	230	193
Programming costs	237	191	173
Accrued general and administrative	126	119	72
Franchise fees	68	62	53
State sales tax	67	52	29
Other accrued expenses	233	232	174
	<u>\$1,405</u>	<u>\$1,379</u>	<u>\$1,343</u>

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10. Long-Term Debt

Long-term debt consists of the following as of December 31, 2002, 2001 and 2000 (in millions):

	2002		2001		2000	
	Face Value	Accreted Value	Face Value	Accreted Value	Face Value	Accreted Value
Long-Term Debt						
Charter Communications, Inc.:						
October and November 2000						
5.75% convertible senior notes due 2005	\$ 750	\$ 750	\$ 750	\$ 750	\$ 750	\$ 750
May 2001						
4.75% convertible senior notes due 2006	633	633	633	633	—	—
Charter Holdings:						
March 1999						
8.250% senior notes due 2007	600	599	600	599	600	599
8.625% senior notes due 2009	1,500	1,497	1,500	1,497	1,500	1,496
9.920% senior discount notes due 2011	1,475	1,307	1,475	1,187	1,475	1,077
January 2000						
10.000% senior notes due 2009	675	675	675	675	675	675
10.250% senior notes due 2010	325	325	325	325	325	325
11.750% senior discount notes due 2010	532	421	532	376	532	335
January 2001						
10.750% senior notes due 2009	900	900	900	899	—	—
11.125% senior notes due 2011	500	500	500	500	—	—
13.500% senior discount notes due 2011	675	454	675	398	—	—
May 2001						
9.625% senior notes due 2009	350	350	350	350	—	—
10.000% senior notes due 2011	575	575	575	575	—	—
11.750% senior discount notes due 2011	1,018	693	1,018	618	—	—
January 2002						
9.625% senior notes due 2009	350	348	—	—	—	—
10.000% senior notes due 2011	300	298	—	—	—	—
12.125% senior discount notes due 2012	450	280	—	—	—	—
Senior bridge loan facility	—	—	—	—	273	273
Renaissance:						
10.00% senior discount notes due 2008	114	113	114	104	114	95
CC V Holdings:						
11.875% senior discount notes due 2008	180	163	180	146	180	132
Other long-term debt	1	1	1	1	2	2
Credit Facilities						
Charter Operating	4,542	4,542	4,145	4,145	4,432	4,432
CC Michigan, LLC and CC New England, LLC (Avalon)	—	—	—	—	213	213
CC VI	926	926	901	901	895	895
Falcon Cable	1,155	1,155	532	582	1,050	1,050
CC VIII Operating	1,166	1,166	1,082	1,082	712	712
	<u>\$19,692</u>	<u>\$18,671</u>	<u>\$17,513</u>	<u>\$16,343</u>	<u>\$13,728</u>	<u>\$13,061</u>

The accreted values presented above represent the face value of the notes less the original issue discount at the time of sale plus the accretion to the balance sheet date.

5.75% Charter Convertible Notes. In October and November 2000, the Company issued 5.75% convertible senior notes with an aggregate principal amount at maturity of \$750 million (the "5.75% Charter Convertible Notes"). The net proceeds of \$728 million were used to repay certain amounts outstanding under the Charter Holdings 2000 senior bridge loan facility. The 5.75% Charter Convertible Notes are convertible at the option of the holder into shares of

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Class A common stock at a conversion rate of certain adjustments. Specifically, the adjustments specified events to provide protection rights to appropriate. These notes are redeemable at the unpaid interest beginning on October 15, 2003, until maturity on October 15, 2005.

4.75% Charter Convertible Notes. In May 2001, million (the "4.75% Charter Convertible Notes") of the credit facilities of the Company's subsidiary, convertible at the option of the holder into shares equivalent to a price of \$26.25 per share, subject based on the occurrence of specified events to the Company when deemed appropriate. These notes amount, plus accrued and unpaid interest beginning December 1, 2001, until maturity on June 1, 2006.

The 5.75% Charter Convertible Notes and the 4.75% Charter, but are structurally subordinated to all existing and future indebtedness and other liabilities of the Company's subsidiaries. Upon a change of control, subject to certain conditions and restrictions, the Company may be required to repurchase the notes, in whole or in part, at 100% of their principal amount plus accrued interest at the repurchase date.

March 1999 Charter Holdings Notes. In March 1999 (collectively, the "Issuers") issued \$3.6 billion principal amount of 8.250% senior notes due 2007, principal amount at maturity of 9.920% senior discount notes due 2011. The net proceeds of approximately \$2.9 billion, combined with the borrowings under the Company's credit facilities, were used to consummate refinance borrowings under the Company's previous

The 8.250% senior notes are not redeemable prior to maturity. Interest is payable semiannually in arrears on April 1 and October 1, beginning October 1, 1999, until maturity.

The 8.625% senior notes are redeemable at the option beginning on April 1, 2004, to the date of redemption maturity.

The 9.920% senior discount notes are redeemable at the option of the Issuers at amounts decreasing from 104.960% to 100% of accreted value beginning April 1, 2004. Thereafter, cash interest is payable semiannually in arrears on April 1 and October 1 beginning October 1, 2004, until maturity. The discount on the 9.920% senior discount notes is being accreted using the effective interest method.

January 2000 Charter Holdings Notes. In January 2000, Charter Holdings and Charter Capital issued \$1.5 billion principal amount of senior notes. The January 2000 Charter Holdings notes consisted of \$675 million in aggregate principal amount of 10.250% senior notes due 2010, and \$532 million in aggregate principal amount at maturity of 11.750% senior discount notes due

12 shares per \$1,000 principal amount of notes, which is equivalent to a price of \$21.56 per share, subject to anti-dilutive provisions, which cause adjustments to occur automatically based on the occurrence of specified events to provide protection rights to appropriate. Additionally, the conversion ratio may be adjusted by the Company when deemed appropriate. These notes are redeemable at the unpaid interest beginning on October 15, 2003, until maturity on October 15, 2005.

Company issued 4.75% convertible senior notes with an aggregate principal amount at maturity of \$633 million. The net proceeds of \$609 million were used to repay certain amounts outstanding under the revolving portion of the credit facilities of the Company's subsidiary, including capital expenditures. The 4.75% Charter Convertible Notes are convertible at the option of the holder into shares equivalent to a price of \$26.25 per share, subject to certain adjustments. Specifically, the adjustments include anti-dilutive provisions, which automatically occur based on the occurrence of specified events to the Company when deemed appropriate. These notes amount, plus accrued and unpaid interest beginning December 1, 2001, until maturity on June 1, 2006.

Charter Convertible Notes rank equally with any future unsubordinated and unsecured indebtedness of the Company and future indebtedness and other liabilities of the Company's subsidiaries. Upon a change of control, subject to certain conditions and restrictions, the Company may be required to repurchase the notes, in whole or in part, at 100% of their principal amount plus accrued interest at the repurchase date.

Charter Holdings and Charter Communications Holdings Capital Corporation ("Charter Capital") issued \$3.6 billion principal amount of senior notes. The March 1999 Charter Holdings notes consisted of \$600 million in aggregate principal amount of 8.625% senior notes due 2009, and \$1.5 billion in aggregate principal amount of 9.920% senior discount notes due 2011. The net proceeds of approximately \$2.9 billion, combined with the borrowings under the Company's credit facilities, were used to consummate refinance borrowings under the Company's previous

Charter Holdings and Charter Capital issued \$1.5 billion principal amount of senior notes. The January 2000 Charter Holdings notes consisted of \$675 million in aggregate principal amount of 10.250% senior notes due 2010, and \$532 million in aggregate principal amount at maturity of 11.750% senior discount notes due

The Issuers at amounts decreasing from 104.313% to 100% of par value plus accrued and unpaid interest. Interest is payable semiannually in arrears on April 1 and October 1, beginning October 1, 1999, until maturity.

tion of the Issuers at amounts decreasing from 104.960% to 100% of accreted value beginning April 1, 2004. Thereafter, cash interest is payable semiannually in arrears on April 1 and October 1 beginning October 1, 2004, until maturity. The discount on the 9.920% senior discount notes is being accreted using the effective interest method.

Charter Holdings and Charter Capital issued \$1.5 billion principal amount of senior notes. The January 2000 Charter Holdings notes consisted of \$675 million in aggregate principal amount of 10.250% senior notes due 2010, and \$532 million in aggregate principal amount at maturity of 11.750% senior discount notes due

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2010. The net proceeds of approximately \$1.25 billion were used to consummate change of control offers for certain of the Falcon, Avalon and Bresnan notes and debentures.

The 10.000% senior notes are not redeemable prior to maturity. Interest is payable semiannually on April 1 and October 1, beginning April 1, 2000 until maturity.

The 10.250% senior notes are redeemable at the option of the Issuers at amounts decreasing from 105.125% to 100% of par value plus accrued and unpaid interest, beginning on January 15, 2005, to the date of redemption. Interest is payable semiannually in arrears on January 15 and July 15, beginning on July 15, 2000, until maturity.

The 11.750% senior discount notes are redeemable at the option of the Issuers at amounts decreasing from 105.875% to 100% of accreted value beginning January 15, 2005. Interest is payable semiannually in arrears on January 15 and July 15, beginning on July 15, 2005, until maturity. The discount on the 11.75% senior discount notes is being accreted using the effective interest method.

January 2001 Charter Holdings Notes. In January 2001, Charter Holdings and Charter Capital issued \$2.1 billion in aggregate principal amount of senior notes. The January 2001 Charter Holdings notes consisted of \$900 million in aggregate principal amount of 10.750% senior notes due 2009, \$500 million in aggregate principal amount of 11.125% senior notes due 2011 and \$675 million in aggregate principal amount at maturity of 13.500% senior discount notes due 2011. The net proceeds of approximately \$1.72 billion were used to repay all remaining amounts then outstanding under the Charter Holdings 2000 senior bridge loan facility and the CC VI revolving credit facility and a portion of the amounts then outstanding under the Charter Operating and CC VII revolving credit facilities and for general corporate purposes.

The 10.750% senior notes are not redeemable prior to maturity. Interest is payable semiannually in arrears on April 1 and October 1, beginning October 1, 2001 until maturity.

The 11.125% senior notes are redeemable at the option of the Issuers at amounts decreasing from 105.563% to 100% of par value plus accrued and unpaid interest beginning on January 15, 2006, to the date of redemption. At any time prior to January 15, 2004, the Issuers may redeem up to 35% of the aggregate principal amount of the 11.125% senior notes at a redemption price of 111.125% of the principal amount under certain conditions. Interest is payable semiannually in arrears on January 15 and July 15, beginning July 15, 2001, until maturity.

The 13.500% senior discount notes are redeemable at the option of the Issuers at amounts decreasing from 106.750% to 100% of accreted value beginning January 15, 2006. At any time prior to January 15, 2004, the Issuers may redeem up to 35% of the aggregate principal amount of the 13.500% senior discount notes at a redemption price of 113.500% of the accreted value under certain conditions. Thereafter, cash interest is payable semiannually in arrears on January 15 and July 15 beginning July 15, 2006, until maturity. The discount on the 13.500% senior discount notes is being accreted using the effective interest method.

May 2001 Charter Holdings Notes. In May 2001, Charter Holdings and Charter Capital issued \$1.94 billion in aggregate principal amount of senior notes. The May 2001 Charter Holdings notes consisted of \$350 million in aggregate principal amount of 9.625% senior notes due 2009, \$575 million in aggregate principal amount of 10.000% senior notes due 2011 and \$1.0 billion in aggregate principal amount at maturity of 11.750% senior discount notes due 2011. The net proceeds of approximately \$1.47 billion were used to pay a portion of the purchase price of the AT&T transactions, repay all amounts outstanding under the Charter Operating and Falcon Cable revolving credit facilities and for general corporate purposes, including capital expenditures.

The 9.625% senior notes are not redeemable prior to maturity. Interest is payable semiannually in arrears on May 15 and November 15, beginning November 15, 2001, until maturity.

The 10.000% senior notes are redeemable at the option of the Issuers at amounts decreasing from 105.000% to 100% of par value plus accrued and unpaid interest beginning on May 15, 2006, to the date of redemption. At any time prior

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to May 15, 2004, the Issuers may redeem up to 35% of the aggregate principal amount of the 10.000% senior notes at a redemption price of 110.000% of the principal amount under certain conditions. Interest is payable semiannually in arrears on May 15 and November 15, beginning November 15, 2001, until maturity.

The 11.750% senior discount notes are redeemable at the option of the Issuers at amounts decreasing from 105.375% to 100% of accreted value beginning January 15, 2006. At any time prior to May 15, 2004, the Issuers may redeem up to 35% of the aggregate principal amount of the 11.750% senior discount notes at a redemption price of 111.750% of the accreted value under certain conditions. Thereafter, cash interest is payable semiannually in arrears on May 15 and November 15 beginning November 15, 2006, until maturity. The discount on the 11.750% senior discount notes is being accreted using the effective interest method.

January 2002 Charter Holdings Notes. In January 2002, Charter Holdings and Charter Capital, issued \$1.1 billion in aggregate principal amount at maturity of senior notes and senior discount notes. The January 2002 Charter Holdings notes consisted of \$350 million in aggregate principal amount of 9.625% senior notes due 2009, \$300 million in aggregate principal amount of 10.000% senior notes due 2011 and \$450 million in aggregate principal amount at maturity of 12.125% senior discount notes due 2012. The net proceeds of approximately \$873 million were primarily used to repay a portion of the amounts outstanding under the revolving credit facilities of the Company's subsidiaries.

The 9.625% senior notes are not redeemable prior to maturity. Interest is payable semi-annually in arrears on May 15 and November 15, beginning May 15, 2002, until maturity.

The 10.000% senior notes are redeemable at the option of the Issuers at amounts decreasing from 105.000% to 100% of par value plus accrued and unpaid interest beginning on May 15, 2006, to the date of redemption. At any time prior to May 15, 2004, the Issuers may redeem up to 35% of the aggregate principal amount of the 10.000% senior notes at a redemption price of 110.000% of the principal amount under certain conditions. Interest is payable semi-annually in arrears on May 15 and November 15, beginning May 15, 2002, until maturity.

The 12.125% senior discount notes are redeemable at the option of the Issuers at amounts decreasing from 106.063% to 100% of accreted value beginning January 15, 2007. At any time prior to January 15, 2005, the issuers may redeem up to 35% of the aggregate principal amount of the 12.125% senior discount notes at a redemption price of 112.125% of the accreted value under certain conditions. Cash interest is payable semi-annually in arrears on January 15 and July 15 beginning July 15, 2007, until maturity. The discount on the 12.125% senior discount notes is being accreted using the effective interest method.

Renaissance Notes. In connection with the acquisition of Renaissance in April 1999, the Company assumed \$163 million principal amount at maturity of 10.000% senior discount notes due 2008 of which \$49 million was repurchased in May 1999. The Renaissance notes do not require the payment of interest until April 15, 2003. From and after April 15, 2003, the Renaissance notes bear interest, payable semi-annually in cash, on April 15 and October 15, commencing on October 15, 2003. The Renaissance notes are due on April 15, 2008.

CC V Holdings Notes. Charter Holdco acquired CC V Holdings in November 1999 and assumed CC V Holdings' outstanding 11.375% senior discount notes due 2008 with an accreted value of \$123 million and \$150 million in principal amount of 9.375% senior subordinated notes due 2008. After December 1, 2003, cash interest on the CC V Holdings 11.375% notes will be payable semi-annually on June 1 and December 1 of each year, commencing June 1, 2004. In addition, a principal payment of \$66 million is due on December 1, 2003.

In January 2000, through change of control offers and purchases in the open market, the Company repurchased all of the \$150 million aggregate principal amount of the CC V Holdings 9.375% notes. Contemporaneously, the Company completed change of control offers in which it repurchased \$16 million aggregate principal amount at maturity of the 11.375% senior discount notes.

High Yield Restrictive Covenants: Limitation on Indebtedness. The indentures governing the public notes of the

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Company's subsidiaries contain certain covenants that restrict the ability of Charter Holdings, Charter Capital, the CCV notes issuers, Renaissance Media Group, and all of their restricted subsidiaries to:

- incur additional debt;
- pay dividends on equity or repurchase equity;
- grant liens;
- make investments;
- sell all or substantially all of their assets or merge with or into other companies;
- sell assets;
- enter into sale-leasebacks;
- in the case of restricted subsidiaries, create or permit to exist dividend or payment restrictions with respect to the bond issuers, guarantee their parent companies debt, or issue specified equity interests; and
- engage in certain transactions with affiliates.

Charter Operating Credit Facilities. The Charter Operating credit facilities provide for borrowings of up to \$5.2 billion and provide for four term facilities: two Term A facilities with an aggregate principal amount of \$1.11 billion that matures in September 2007, each with different amortization schedules, one beginning in June 2002 and one beginning in September 2005; and two Term B facilities with an aggregate principal amount of \$2.73 billion, of which \$1.84 billion matures in March 2008 and \$893 million matures in September 2008. The Charter Operating credit facilities also provide for two revolving credit facilities, in an aggregate amount of \$1.34 billion, which will reduce annually beginning in March 2004 and September 2005, with a maturity date in September 2007. At the option of the lenders, supplemental credit facilities in the amount of \$100 million may be available. Amounts under the Charter Operating credit facilities bear interest at the Base Rate or the Eurodollar rate, as defined, plus a margin of up to 2.75% for Eurodollar loans (4.58% to 3.13% as of December 31, 2002) and 1.75% for base rate loans. A quarterly commitment fee of between 0.25% and 0.375% per annum is payable on the unborrowed balance of the revolving credit facilities. As of December 31, 2002, outstanding borrowings were approximately \$4.5 billion and the unused total potential availability was \$633 million although financial covenants limited our availability to \$318 million as of December 31, 2002.

CC VI Operating Credit Facilities. The CC VI Operating credit facilities provide for two term facilities, one with a principal amount of \$450 million that matures May 2008 (Term A), and the other with a principal amount of \$400 million that matures November 2008 (Term B). The CC VI Operating credit facilities also provide for a \$350 million reducing revolving credit facility with a maturity date in May 2008. At the option of the lenders, supplemental credit facilities in the amount of \$300 million may be available until December 31, 2004. Amounts under the CC VI Operating credit facilities bear interest at the base rate or the Eurodollar rate, as defined, plus a margin of up to 3.0% for Eurodollar loans (4.31% to 2.62% as of December 31, 2002) and 2.0% for base rate loans. A quarterly commitment fee of between 0.250% and 0.375% per annum is payable on the unborrowed balance of the Term A facility and the revolving facility. As of December 31, 2002, outstanding borrowings were \$926 million and unused total potential availability was \$274 million although financial covenants limited our availability to \$127 million as of December 31, 2002.

Falcon Cable Credit Facilities. The Falcon Cable credit facilities provide for two term facilities, one with a principal amount of \$192 million that matures June 2007 (Term B), and the other with the principal amount of \$238 million that matures December 2007 (Term C). The Falcon Cable credit facilities also provide for a reducing revolving facility of up to approximately \$68 million (maturing in December 2006), a reducing supplemental facility of up to \$110 million (maturing in December 2007) and a second reducing revolving facility of up to \$670 million (maturing in June 2007). At the option of the lenders, supplemental credit facilities in the amount of up to \$486 million may also be available. Amounts under the Falcon Cable credit facilities bear interest at the base rate or the Eurodollar rate, as defined, plus a margin of up to 2.5% for Eurodollar loans (4.07% to 2.685% as of December 31, 2002) and up to 1.5% for base rate loans. A quarterly commitment fee of between 0.25% and 0.375% per annum is payable on the unborrowed balance of the revolving facilities. As of December 31, 2002, outstanding borrowings were \$1.2 billion and unused total potential

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availability was \$173 million, all of which would have been available based on financial covenants as of December 31, 2002.

CC VIII Operating Credit Facilities. The CC VIII Operating credit facilities provide for borrowings of up to \$1.49 billion as of December 31, 2002. The CC VIII credit facilities provide for three term facilities, two Term A facilities with a reduced current aggregate principal amount of \$450 million, that continues reducing quarterly until they reach maturity in June 2007, and a Term B facility with a reduced current principal amount of \$495 million, that continues reducing quarterly until it reaches maturity in February 2008. The CC VIII Operating credit facilities also provide for two reducing revolving credit facilities, in the aggregate amount of \$547 million, which will reduce quarterly beginning in March 2002 and September 2005, respectively, with maturity dates in June 2007. At the option of the lenders, supplemental facilities in the amount of \$300 million may be available. Amounts under the CC VIII Operating credit facilities bear interest at the base rate or the Eurodollar rate, as defined, plus a margin of up to 2.75% for Eurodollar loans (4.54% to 2.89% as of December 31, 2002) and up to 1.75% for base rate loans. A quarterly commitment fee of between 0.250% and 0.375% is payable on the unborrowed balance of the revolving credit facilities. As of December 31, 2002, outstanding borrowings were \$1.2 billion, and unused total potential availability was \$326 million, all of which would have been available based on financial covenants as of December 31, 2002.

Obligations under the credit facilities of the Company's subsidiaries are guaranteed by each respective subsidiary's parent and by each of their operating subsidiaries. The obligations under the credit facilities of the Company's subsidiaries are secured by pledges of all equity interests owned by each subsidiary and its operating subsidiaries in other persons, and intercompany obligations owing to each subsidiary and/or its operating subsidiaries by their affiliates, but are not secured by the other assets of each subsidiary or its operating subsidiaries. The obligations under each subsidiary's credit facilities are also secured by pledges by the subsidiary's parent of all equity interests it holds in other persons, and intercompany obligations owing to it by its affiliates, but are not secured by the other assets of the subsidiary's parent.

Each of the credit facilities of the Company's subsidiaries contain representations and warranties, affirmative and negative covenants similar to those described above with respect to the indentures governing the public notes of the Company's subsidiaries, information requirements, events of default and financial covenants. The financial covenants, which are generally tested on a quarterly basis, measure performance against standards set for leverage, debt service coverage, and operating cash flow coverage of cash interest expense. Additionally, the credit facilities contain provisions requiring mandatory loan prepayments under specific circumstances, including when significant amounts of assets are sold and the proceeds are not promptly reinvested in assets useful in the business of the borrower. The Charter Operating credit facility also provides that in the event that any existing Charter Holdings notes or other long-term indebtedness of Charter Holdings remain outstanding on the date, which is six months prior to the scheduled final maturity, the term loans under the Charter Operating credit facility will mature and the revolving credit facilities will terminate on such date.

In the event of a default under the Company's subsidiaries' credit facilities or public notes, the subsidiaries' creditors could elect to declare all amounts borrowed, together with accrued and unpaid interest and other fees, to be due and payable. In such event, the subsidiaries' credit facilities and indentures that were so accelerated or were otherwise in default will not permit the Company's subsidiaries to distribute funds to Charter Holdco or the Company to pay interest or principal on the public notes. If the amounts outstanding under such credit facilities or public notes are accelerated, all of the subsidiaries' debt and liabilities would be payable from the subsidiaries' assets, prior to any distribution of the subsidiaries' assets to pay the interest and principal amounts on the public notes. In addition, the lenders under the Company's credit facilities could foreclose on their collateral, which includes equity interests in the Company's subsidiaries, and exercise other rights of secured creditors. In any such case, the Company might not be able to repay or make any payments on its public notes. Additionally, such a default would cause a cross-default in the indentures governing the Charter Holdings notes and the convertible senior notes and would trigger the cross-default provision of the Charter Operating Credit Agreement. Any default under any of the subsidiaries' credit facilities or public notes might adversely affect the holders of the Company's public notes and the Company's growth, financial condition and results of operations and could force the Company to examine all options, including seeking the protection of the bankruptcy laws.

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Backup Credit Facility: Effective April 14, 2003, the Company entered into a commitment letter with Vulcan Inc., which is an affiliate of Paul Allen, pursuant to which Vulcan Inc. or an affiliate (the "lender") would lend initially to Charter Communications VII, LLC an aggregate amount of up to \$300 million, which amount includes a subfacility of up to \$100 million for the issuance of letters of credit. The borrower would be able to draw under the facility or have letters of credit issued, in each case within five business days of the end of each quarter ending on or prior to March 31, 2004. The loans and letters of credit could only be used to repay loans, or replace letters of credit, under the Company's operating subsidiaries' credit facilities to the extent required to comply with the leverage ratios under those credit facilities or to create cushions in excess of the minimum amount necessary to comply with such ratios. The facility would be guaranteed by the Company and certain of its subsidiaries and would be secured by a lien on the Company's corporate headquarters in St. Louis and certain corporate aircraft. The Company would be required to use its commercially reasonable efforts to form a new interim holding company (CCH II, LLC) as a subsidiary of Charter Holdings and to cause Charter Holdings to transfer to it the equity interests in Charter Communications Operating LLC, CC VI Holdings, LLC, Charter Communications VII, LLC and CC V Holdings, LLC, which transfer the Company refers to as the equity contribution. The equity interests to be transferred in the equity contribution have been pledged as security for the loans under the Charter Operating credit facility. The Company would also be required to use its commercially reasonable efforts to obtain the consent of the lenders under the Charter Operating credit facility to the grant to the lender of a second priority lien on the equity interests transferred to CCH II, LLC. Upon the equity contribution, CCH II, LLC would become the borrower under the facility.

In addition to the liens on our corporate headquarters, on the corporate aircraft and on the equity interests transferred pursuant to the equity contribution, the facility would also be secured on a *pari passu* basis by liens or security interests granted on any assets or properties (other than assets or properties of CCH II, LLC, which shall secure the facility on a first priority basis, subject to the prior lien in favor of the lenders under Charter Operating credit facility on the equity interests transferred pursuant to the equity contribution) to secure any indebtedness of us or any of our subsidiaries (other than the operating company credit facilities and other ordinary and customary exceptions to be determined).

The interest rate on the loans would be initially 13% per annum, reducing to 12% per annum at such time as CCH II, LLC became the borrower under the facility. If the borrower were unable to receive funds from its operating subsidiaries to pay such interest, the borrower would be able to pay interest by delivering additional notes to the lender in the amount of the accrued interest calculated at the rate of 15% per annum, reducing to 14% per annum for any issuance after CCH II, LLC became the borrower under the facility. Such additional notes would bear interest at the same rate as, and otherwise be on the same terms as, the notes issued to represent the original loans under the facility. Upon the occurrence of an event of default, the interest rate would be increased by 2% per annum over the interest rate otherwise applicable.

If letters of credit are issued pursuant to the facility, the borrower would pay a letter of credit fee of 8% per annum of the face amount of the letter of credit.

The borrower would pay the lender a facility fee of 1.5% of the amount of the facility, payable over three years (with 0.5% being earned upon execution of the commitment letter and 1.0% being earned upon execution of the definitive documentation). In addition to the facility fee, the borrower would pay a commitment fee on the undrawn portion of the facility in the amount of 0.5% per annum commencing upon execution of the definitive documentation.

The borrower would have the right to terminate the facility at any time that no loans or letters of credit are outstanding, although any fees earned prior to termination would remain payable. No amortization payments would be required prior to maturity. The facility would mature on November 12, 2009, provided that at such time as CCH II, LLC became the borrower under the facility the maturity date would become March 1, 2007. The loan may not be prepaid prior to March 31, 2004, but the borrower would have the right to make prepayments at any time after March 31, 2004, without the payment of any premium or penalty. The borrower would be required to offer to purchase outstanding notes evidencing the loans under the facility with the proceeds of certain asset sales and debt issuances.

The definitive documentation would contain customary representations, covenants, events of default and indemnification provisions including a total leverage covenant and an interest coverage covenant, in each case modeled after the comparable covenants in the operating company credit facilities, with appropriate adjustments to be determined.

The facility is subject to the negotiation and execution of definitive documentation by June 30, 2003. If the parties have not executed the definitive documentation by that date, the facility will terminate. Once the documentation has been executed, the borrower's ability to draw on the facility would be subject to certain conditions, such as the use of other available funds for covenant compliance purposes, evidence of compliance with financial covenants, accuracy of representations and warranties, no material adverse change having occurred, there being no default under other credit facilities and indentures, and receipt of financial statements. Although the Company believes that it will be able to satisfy those conditions, there can be no assurance that the Company will be able to do so or that if

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the Company fails to do so it will be able to negotiate waivers of such conditions.

Based upon outstanding indebtedness as of December 31, 2002, the amortization of term loans, scheduled reductions in available borrowings of the revolving credit facilities, and the maturity dates for all senior and subordinated notes and debentures, aggregate future principal payments on the total borrowings under all debt agreements as of December 31, 2002, are as follows:

Year	Amount
	(in millions)
2003	\$ 236
2004	193
2005	1,210
2006	1,991
2007	2,647
Thereafter	13,415
	<u>\$19,692</u>

For the amounts of debt scheduled to mature during 2003, it is management's intent to fund the repayments from borrowings on the Company's revolving credit facility. The accompanying balance sheet reflects this intent by presenting all debt balances as long-term while the table above reflects actual debt maturities as of the stated date.

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11. Minority Interest and Equity Interests of Charter Holdco

The Company is a holding company whose primary asset is a controlling equity interest in Charter Holdco, the indirect owner of the Company's cable systems. Minority interest on the Company's consolidated balance sheets represents the ownership percentages of Charter Holdco not owned by the Company, or 53.5% of total members' equity of Charter Holdco, plus \$668 million, \$655 million and \$641 million of preferred membership interests in CC VIII, LLC (CC VIII), an indirect subsidiary of Charter Holdco, as of December 31, 2002, 2001 and 2000, respectively. As more fully described below, this preferred interest arises from the approximately \$629 million of preferred units issued by CC VIII in connection with the Bresnan acquisition in February, 2000. Members' equity of Charter Holdco was \$662 million, \$7.0 billion and \$8.4 billion as of December 31, 2002, 2001 and 2000, respectively. Gains and losses arising from the issuance by Charter Holdco of its membership units are recorded as capital transactions, thereby increasing or decreasing shareholders' equity and decreasing or increasing minority interest on the accompanying consolidated balance sheets. Minority interest was 53.5%, 53.5% and 59.2% as of December 31, 2002, 2001 and 2000, respectively. Changes to minority interest consist of the following for the periods presented (in millions):

	Minority Interest
Balance, December 31, 1999	\$ 5,381
Equity of subsidiaries issued to Bresnan sellers	1,014
Equity of subsidiaries classified as redeemable securities	(1,095)
Minority interest in loss of a subsidiary	(1,282)
Minority interest in income tax benefit	15
Option compensation expense, net	22
Impact of issuance of equity by Charter Holdco	445
Redeemable securities reclassified as minority interest	49
Other	(3)
Balance, December 31, 2000	4,546
Equity reclassified from redeemable securities (26,539,746 shares of Class A common stock)	1,096
Minority interest in loss of a subsidiary	(1,464)
Minority interest in change in accounting principle	(14)
Minority interest in income tax benefit	16
Option compensation expense, net	(2)
Changes in fair value of interest rate agreements	(22)
Gain on issuance of equity by Charter Holdco	253
Balance, December 31, 2001	4,409
Minority interest in loss of a subsidiary	(3,179)
Minority interest in change in accounting principle	(306)
Minority interest in income tax benefit	132
Option compensation expense, net	3
Changes in fair value of interest rate agreements	(35)
Gain on issuance of equity by Charter Holdco	1
Balance, December 31, 2002	\$ 1,025

In February 2000, Charter Holdco issued 15 million membership units for approximately \$25 per share, or \$385 million, primarily to the Comcast sellers as partial consideration for the Bresnan acquisition thereby decreasing Charter's ownership percentage of Charter Holdco to 40% from 41% immediately preceding the transaction. These transactions resulted in a loss on issuance of equity by Charter Holdco of \$51 million. In September 2000, Charter Holdco issued 12 million membership units to Charter for approximately \$15 per share in exchange for \$178 million of equity interest of two businesses acquired by Charter and contributed to Charter Holdco thereby increasing Charter's ownership percentage of Charter Holdco to 41% from 40% immediately preceding the transaction. This

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transaction resulted in a loss on issuance of equity by Charter Holdco of \$5 million. In May 2001, Charter Holdco issued 60 million membership units to Charter for approximately \$20 per share in exchange for \$1.2 billion of proceeds from issuance of Charter common stock thereby increasing Charter's ownership percentage of Charter Holdco to 46% from 41% immediately preceding the transaction. This transaction resulted in a gain on issuance of equity by Charter Holdco of \$236 million.

As part of the Bresnan acquisition in February 2000, CC VIII, an indirect limited liability company subsidiary of Charter, issued Class A Preferred Membership Interests (collectively, the CC VIII Interest) with a value and an initial capital account of approximately \$630 million to certain sellers affiliated with AT&T Broadband, now owned by Comcast Corporation (the Comcast Sellers). The CC VIII Interest is entitled to a 2% priority return on its initial capital amount and such priority return is entitled to preferential distributions from available cash and upon liquidation of CC VIII. The CC VIII Interest generally does not share in the profits and losses of CC VIII at present. The Comcast Sellers have the right at their option to exchange the CC VIII Interest for shares of Charter Class A common stock. Charter does not have the right to force such an exchange. In connection with the Bresnan acquisition, Mr. Allen granted the Comcast Sellers the right to sell to Mr. Allen the CC VIII Interest (or any Charter Class A common stock that the Comcast Sellers would receive if they exercised their exchange right) for approximately \$630 million plus 4.5% interest annually from February 2000 (the Comcast Put Right). In April 2002, in accordance with such put agreement, the Comcast Sellers notified Mr. Allen of their exercise of the Comcast Put Right in full, and the parties agreed to consummate the sale in April 2003, although the parties also agreed to negotiate in good faith possible alternatives to the closing. On April 9, 2003, the parties agreed to extend the closing for up to thirty days. If the sale to Mr. Allen is consummated, Mr. Allen would become the holder of the CC VIII Interest (or, if previously exchanged by the current holders, any Charter Class A common stock issued to the current holders upon such exchange). If the CC VIII Interest is transferred to Mr. Allen, then, subject to the matters referenced in the next paragraph, Mr. Allen generally thereafter would be allocated his pro rata share (based on number of membership interests outstanding) of profits or losses of CC VIII. In the event of a liquidation of CC VIII, Mr. Allen would not be entitled to any priority distributions (except with respect to the 2% priority return, as to which such priority would continue), and Mr. Allen's share of any remaining distributions in liquidation would be equal to the initial capital account of the Comcast Sellers of approximately \$630 million, increased or decreased by Mr. Allen's pro rata share of CC VIII's profits or losses (as computed for capital account purposes) after the date of the transfer of the CC VIII Interest to Mr. Allen.

An issue has arisen as to whether the documentation for the Bresnan transaction was correct and complete with regard to the ultimate ownership of the CC VIII Interest following consummation of the Comcast Put Right. Charter's Board of Directors has formed a Special Committee comprised of Messrs. Tory, Wangberg and Nelson to investigate and take any other appropriate action on behalf of the Company with respect to this matter. Specifically, the Special Committee is considering whether it should be the position of Charter that Mr. Allen should be required to contribute the CC VIII Interest to Charter Holdco in exchange for Charter Holdco membership units, immediately after his acquisition of the CC VIII Interest upon consummation of the Comcast Put Right. To the extent it is ultimately determined that Mr. Allen must contribute the CC VIII Interest to Charter Holdco following consummation of the Comcast Put Right, the Special Committee may also consider what additional steps, if any, should be taken with respect to the further disposition of the CC VIII Interest by Charter Holdco. If necessary, following the completion of the Special Committee's investigation of the facts and circumstances relating to this matter, the Special Committee and Mr. Allen have agreed to a non-binding mediation process to resolve any dispute relating to this matter as soon as practicable, but without any prejudice to any rights of the parties if such dispute is not resolved as part of the mediation.

12. Redeemable Securities

In connection with several acquisitions in 1999 and 2000, sellers who acquired Charter Holdco membership units, additional equity interests in a subsidiary of Charter Holdings or shares of Class A common stock in Charter's initial public offering received potential rescission rights against Charter and Charter Holdco arising out of possible violations of Section 5 of the Securities Act of 1933, as amended, in connection with the offers and sales of these equity interests. Accordingly, the maximum potential cash obligation related to the rescission rights, estimated at

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\$1.1 billion as of December 31, 2000, has been excluded from shareholders' equity or minority interest and classified as redeemable securities on the consolidated balance sheet.

In February 2001, all remaining rescission rights associated with the redeemable securities expired without the security holders requesting repurchase of their securities. Accordingly, the Company reclassified the respective amounts to minority interest and shareholders' equity, as applicable.

13. Preferred Stock — Redeemable

On August 31, 2001, in connection with its acquisition of Cable USA, Inc. and certain cable system assets from affiliates of Cable USA, Inc., the Company issued 505,664 shares of Series A Convertible Redeemable Preferred Stock (the Preferred Stock) valued at and with a liquidation preference of \$51 million. Holders of the Preferred Stock have no voting rights but are entitled to receive cumulative cash dividends at an annual rate of 5.75%, payable quarterly. If for any reason Charter fails to pay the dividends on the Preferred Stock on a timely basis, the dividend rate on each share increases to an annual rate of 7.75% until the payment is made. The Preferred Stock is redeemable by Charter at its option on or after August 31, 2004 and must be redeemed by Charter at any time upon a change of control, or if not previously redeemed or converted, on August 31, 2008. The Preferred Stock is convertible, in whole or in part, at the option of the holders from April 1, 2002 through August 31, 2008, into shares of common stock at an initial conversion rate equal to a conversion price of \$24.71 per share of common stock, subject to certain customary adjustments. The redemption price per share of Preferred Stock is the Liquidation Preference of \$100, subject to certain customary adjustments. In the first quarter of 2003, the Company issued 39,595 additional shares of preferred stock valued at and with a liquidation preference of \$- million.

14. Comprehensive Loss

Certain marketable equity securities are classified as available-for-sale and reported at market value with unrealized gains and losses recorded as accumulated other comprehensive loss on the accompanying consolidated balance sheets. The Company reports changes in the fair value of interest rate agreements designated as hedging instruments of the variability of cash flows associated with floating-rate debt obligations, that meet the effectiveness criteria of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," in accumulated other comprehensive loss. Comprehensive loss for the years ended December 31, 2002, 2001 and 2000 was \$2.5 billion, \$1.2 billion and \$0.9 billion, respectively.

15. Accounting for Derivative Instruments and Hedging Activities

The Company uses interest rate risk management derivative instruments, such as interest rate swap agreements and interest rate collar agreements (collectively referred to herein as interest rate agreements) as required under the terms of its credit facilities. The Company's policy is to manage interest costs using a mix of fixed and variable rate debt. Using interest rate swap agreements, the Company agrees to exchange, at specified intervals through 2007, the difference between fixed and variable interest amounts calculated by reference to an agreed-upon notional principal amount. Interest rate collar agreements are used to limit the Company's exposure to and benefits from interest rate fluctuations on variable rate debt to within a certain range of rates.

Effective January 1, 2001, the Company adopted SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities." Interest rate agreements are recorded in the consolidated balance sheet at December 31, 2002 and 2001 as either an asset or liability measured at fair value. In connection with the adoption of SFAS No. 133, the Company recorded a loss of \$10 million (approximately \$24 million before minority interest effects) as the cumulative effect of change in accounting principle. The effect of adoption was to increase net loss and loss per share by \$10 million and \$0.04 per share, respectively, for the year ended December 31, 2001.

The Company has certain interest rate derivative instruments that have been designated as cash flow hedging instruments. Such instruments are those that effectively convert variable interest payments on certain debt instruments into fixed payments. For qualifying hedges, SFAS No. 133 allows derivative gains and losses to offset

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related results on hedged items in the consolidated statement of operations. The Company has formally documented, designated and assessed the effectiveness of transactions that receive hedge accounting. For the years ended December 31, 2002 and 2001, other expense includes \$14 million and \$2 million, respectively, of losses, which represent cash flow hedge ineffectiveness on interest rate hedge agreements arising from differences between the critical terms of the agreements and the related hedged obligations. Changes in the fair value of interest rate agreements designated as hedging instruments of the variability of cash flows associated with floating-rate debt obligations are reported in accumulated other comprehensive loss. For the year ended December 31, 2002 and 2001, a loss of \$65 million and \$39 million, respectively, related to derivative instruments designated as cash flow hedges was recorded in accumulated other comprehensive loss and minority interest. The amounts are subsequently reclassified into interest expense as a yield adjustment in the same period in which the related interest on the floating-rate debt obligations affects earnings (losses).

Certain interest rate derivative instruments are not designated as hedges as they do not meet the effectiveness criteria specified by SFAS No. 133. However, management believes such instruments are closely correlated with the respective debt, thus managing associated risk. Interest rate derivative instruments not designated as hedges are marked to fair value with the impact recorded as loss on interest rate agreements. For the years ended December 31, 2002 and 2001, the Company recorded other expense of \$101 million and \$48 million, respectively, for interest rate derivative instruments not designated as hedges.

As of December 31, 2002, 2001 and 2000, the Company had outstanding \$3.4 billion, \$3.3 billion and \$1.9 billion and \$520 million, \$520 million and \$520 million, respectively, in notional amounts of interest rate swaps and collars, respectively. Additionally, at December 31, 2000, the Company had \$15 million of interest rate caps. The notional amounts of interest rate instruments do not represent amounts exchanged by the parties and, thus, are not a measure of exposure to credit loss. The amounts exchanged are determined by reference to the notional amount and the other terms of the contracts.

16. Fair Value of Financial Instruments

The Company has estimated the fair value of its financial instruments as of December 31, 2002, 2001 and 2000 using available market information or other appropriate valuation methodologies. Considerable judgment, however, is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented in the accompanying consolidated financial statements are not necessarily indicative of the amounts the Company would realize in a current market exchange.

The carrying amounts of cash, receivables, payables and other current assets and liabilities approximate fair value because of the short maturity of those instruments. The Company is exposed to market price risk volatility with respect to investments in publicly traded and privately held entities.

The fair value of interest rate agreements represents the estimated amount the Company would receive or pay upon termination of the agreements. Management believes that the sellers of the interest rate agreements will be able to meet their obligations under the agreements. In addition, some of the interest rate agreements are with certain of the participating banks under the Company's credit facilities, thereby reducing the exposure to credit loss. The Company has policies regarding the financial stability and credit standing of major counterparties. Nonperformance by the counterparties is not anticipated nor would it have a material adverse effect on the Company's consolidated financial position or results of operations.

The estimated fair value of the Company's notes, credit facilities and interest rate agreements at December 31, 2002, 2001 and 2000 are based on quoted market prices or a discounted cash flow analysis using the Company's incremental borrowing rate for similar types of borrowing arrangements and dealer quotations.

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A summary of the carrying value and fair value of the Company's debt and related interest rate agreements at December 31, 2002, 2001 and 2000 is as follows (in millions):

	2002		2001		2000	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
Debt						
Charter convertible notes	\$1,383	\$ 295	\$1,383	\$1,327	\$ 750	\$ 877
Charter Holdings debt	9,222	3,867	7,999	7,964	4,780	4,426
Credit facilities	7,789	6,367	6,710	6,710	7,302	7,302
Other	277	212	251	237	229	195
Interest Rate Agreements						
Assets (Liabilities)						
Swaps	(258)	(258)	(80)	(80)	(1)	5
Collars	(34)	(34)	(34)	(34)	—	11

The weighted average interest pay rate for the Company's interest rate swap agreements was 7.40%, 7.22% and 7.61 % at December 31, 2002, 2001 and 2000, respectively. The Company's interest rate collar agreements are structured so that if LIBOR falls below 5.3%, the Company pays 6.7%. If the LIBOR rate is between 5.3% and 8.0%, the Company pays LIBOR. The LIBOR rate is capped at 8.0% if LIBOR is between 8.0% and 9.9%. If the LIBOR rate rises above 9.9%, the cap is removed.

17. Revenues

Revenues consist of the following for the years presented (in millions):

	Year Ended December 31,		
	2002	2001	2000
Analog video	\$3,083	\$2,768	\$2,503
Digital video	457	307	89
High-speed data	340	155	55
Advertising sales	302	197	142
Other	384	380	352
	<u>\$4,566</u>	<u>\$3,807</u>	<u>\$3,141</u>

18. Operating Expenses

Operating expenses consist of the following for the years presented (in millions):

	Year Ended December 31,		
	2002	2001	2000
Analog video programming	\$1,012	\$ 874	\$ 741
Digital video programming	159	103	34
High-speed data	112	65	25
Advertising sales	87	64	57
Service	434	374	328
	<u>\$1,804</u>	<u>\$1,480</u>	<u>\$1,185</u>

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19. Selling, General and Administrative Expenses

Selling, general and administrative expenses consist of the following for the years presented (in millions):

	Year Ended December 31,		
	2002	2001	2000
General and administrative	\$813	\$696	\$505
Marketing	153	136	103
	<u>\$966</u>	<u>\$832</u>	<u>\$608</u>

20. Option Plans

The Company grants stock options, restricted stock and other incentive compensation pursuant to two plans — the 1999 Option Plan of Charter Holdco (the "1999 Plan") and the 2001 Stock Incentive Plan of Charter (the "2001 Plan"). The 1999 Plan provided for the grant of options to purchase membership units in Charter Holdco to current and prospective employees and consultants of Charter Holdco and its affiliates and current and prospective non-employee directors of Charter. Options granted generally vest over five years from the grant date, with 25% vesting 15 months after the anniversary of the grant date and ratably thereafter. Options not exercised accumulate and are exercisable, in whole or in part, in any subsequent period, but not later than ten years from the date of grant. Membership units received upon exercise of the options are automatically exchanged into Class A common stock of Charter on a one-for-one basis.

The 2001 Plan provides for the grant of non-qualified stock options, stock appreciation rights, dividend equivalent rights, performance units and performance shares, share awards, phantom stock and/or shares of restricted stock (not to exceed 3,000,000), as each term is defined in the 2001 Plan. Employees, officers, consultants and directors of the Company and its subsidiaries and affiliates are eligible to receive grants under the 2001 Plan. Options granted generally vest over four years from the grant date, with 25% vesting on the anniversary of the grant date and ratably thereafter. Generally, options expire 10 years from the grant date.

Together, the plans allow for the issuance of up to an aggregate of 90,000,000 shares of Charter Class A common stock (or units convertible into Charter Class A common stock). The aggregate shares available reflects an October 2002 amendment to the 2001 Plan approved by the board of directors of Charter to increase available shares by 30,000,000 shares. However, the amendment is subject to shareholder approval and any grants with respect to these additional shares will not be exercisable unless and until the Company's shareholders approve the amendment. In 2001, any shares covered by options that terminated under the 1999 Plan were transferred to the 2001 Plan, and no new options were granted under the 1999 Plan. During September and October 2001, in connection with new employment agreements and related option agreements entered into by the Company, certain executives of the Company were awarded an aggregate of 256,000 shares of restricted Class A common stock, of which 26,250 shares were cancelled as of December 31, 2002. In January and February of 2003, an additional 92,813 shares were canceled. The shares vested 25% upon grant, with the remaining shares vesting monthly over a three-year period beginning after the first anniversary of the date of grant. As of December 31, 2002, deferred compensation remaining to be recognized in future periods totaled \$1 million.

In September 2001, when the Company's former President and Chief Executive Officer terminated his employment, as part of his separation agreement he waived his right to an option to purchase approximately seven million Charter Holdco membership units, of which approximately 5 million had vested. Accordingly, the Company recorded a reversal of compensation expense previously recorded on unvested options of \$22 million.

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A summary of the activity for the Company's stock options, excluding granted shares of restricted Class A common stock, for the years ended December 31, 2002, 2001 and 2000, is as follows (options in thousands, except per share data):

	2002		2001		2000	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Options outstanding, beginning of period	46,558	\$17.10	28,482	\$19.24	20,758	\$19.79
Granted	13,122	4.88	29,395	16.01	10,247	18.06
Exercised	—	—	(278)	19.23	(17)	20.00
Cancelled	(6,048)	16.32	(11,041)	19.59	(2,506)	18.98
Options outstanding, end of period	53,632	\$14.22	46,558	\$17.10	28,482	\$19.24
Weighted average remaining contractual life	8 years		9 years		9 years	
Options exercisable, end of period	17,844	\$17.93	9,994	\$18.51	7,044	\$19.98
Weighted average fair value of options granted	\$ 2.89		\$ 9.15		\$ 9.63	

The following table summarizes information about stock options outstanding and exercisable as of December 31, 2002:

Options Outstanding				Options Exercisable			
Range of Exercise Prices	Number Outstanding	Weighted- Average Remaining Contractual Life	Weighted- Average Exercise Price	Number Exercisable	Weighted- Average Remaining Contractual Life	Weighted- Average Exercise Price	
	(in thousands)			(in thousands)			
\$ 1.11 — \$ 2.85	9,184	10 years	\$ 2.58	125	10 years	\$ 1.58	
\$ 9.13 — \$ 13.96	19,676	9 years	12.20	4,330	9 years	12.50	
\$ 14.51 — \$ 20.00	16,130	7 years	19.04	11,024	7 years	19.23	
\$ 20.46 — \$ 23.09	8,592	8 years	22.21	2,365	8 years	22.14	

The Company uses the intrinsic value method prescribed by APB Opinion No. 25, "Accounting for Stock Issued to Employees," to account for the option plans. Option compensation expense of \$5 million, a net option compensation benefit of \$5 million and option compensation expense of \$38 million for the years ended December 31, 2002, 2001 and 2000, respectively, was recorded in the consolidated statements of operations since the exercise prices of certain options were less than the estimated fair values of the underlying membership interests on the date of grant. A reversal of previously recognized option compensation expense of \$22 million for the year ended December 31, 2001 was recorded in the consolidated statements of operations primarily in connection with the waiver of the right to approximately seven million options by the Company's former President and Chief Executive Officer as part of his September 2001 separation agreement. This was partially offset by expense recorded because exercise prices on certain options were less than the estimated fair values of the Company's stock at the time of grant. Estimated fair values were determined by the Company using the valuation inherent in the companies acquired by Paul G. Allen in 1998 and valuations of public companies in the cable television industry adjusted for factors specific to the Company. Compensation expense is being recorded with the method described in FIN 28 over the vesting period of the individual options that varies between four and five years. As of December 31, 2002, deferred compensation remaining to be recognized in future periods totaled \$2 million. No stock option compensation expense was recorded for the options granted after November 8, 1999, since the exercise price was equal to the estimated fair value of the underlying membership interests or shares of Class A common stock on the date of grant. Since the membership units are exchangeable into Class A common stock of Charter on a one-for-one basis, the estimated fair value was equal to the quoted market values of Class A common stock.

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On July 25, 2001, the Company issued options to purchase 186,300 shares of Charter Class A common stock to a consultant in consideration of services to be provided by shareholders. The options are exercisable immediately, at an exercise price of \$20.46 per share and if not exercised prior to the tenth anniversary of the grant date, will expire. The Company accounts for options granted to consultants in compensation expense of \$3 million on July 25, 2001. The fair value of the options, \$13.95 per option, was estimated on the date of grant using the Black-Scholes option-pricing model and the following assumptions: risk-free interest rate of 5.7%; expected volatility of 49.3%; and an expected life of 10 years. The

On July 25, 2001, the Company issued options to purchase 186,300 shares of Charter Class A common stock to a consultant in consideration of services to be provided by shareholders. The options are exercisable immediately, at an exercise price of \$20.46 per share and if not exercised prior to the tenth anniversary of the grant date, will expire. The Company accounts for options granted to consultants in compensation expense of \$3 million on July 25, 2001. The fair value of the options, \$13.95 per option, was estimated on the date of grant using the Black-Scholes option-pricing model and the following assumptions: risk-free interest rate of 5.7%; expected volatility of 49.3%; and an expected life of 10 years. The

On January 1, 2003, the Company adopted the fair value measurement of a stock-based award to an employee over the vesting period. The result in utilizing a preferable accounting method as the consolidated compensation expense consistently with other forms of compensation and other equity awards under SFAS No. 123. The fair value method will be applied only to awards granted on or after January 1, 2003, unless they are modified or settled in cash. Management believes the adoption of these provisions will not have a material impact on the consolidated results of operations or financial position. The ongoing effect on consolidated results of operations or financial position will be dependent upon future stock based compensation awards granted. Had the Company adopted SFAS No. 123 as of January 1, 2002, the consolidated December 31, 2002 would have been \$20 million.

On January 1, 2003, the Company adopted the fair value measurement of a stock-based award to an employee over the vesting period. The result in utilizing a preferable accounting method as the consolidated compensation expense consistently with other forms of compensation and other equity awards under SFAS No. 123. The fair value method will be applied only to awards granted on or after January 1, 2003, unless they are modified or settled in cash. Management believes the adoption of these provisions will not have a material impact on the consolidated results of operations or financial position. The ongoing effect on consolidated results of operations or financial position will be dependent upon future stock based compensation awards granted. Had the Company adopted SFAS No. 123 as of January 1, 2002, the consolidated December 31, 2002 would have been \$20 million.

21. Special Charges

In the fourth quarter of 2002, the Company recorded a special charge of \$31 million related to the consolidation of its operations from three divisions and ten regional management structures. The remaining \$4 million is related to legal and professional fees associated with the SEC investigation. The \$31 million charge related to real estate costs of \$3 million. The Company intends to terminate approximately 1,400 employees. As of December 31, 2002, a liability of approximately \$31 million is recorded.

In the fourth quarter of 2002, the Company recorded a special charge of \$31 million related to the consolidation of its operations from three divisions and ten regional management structures. The remaining \$4 million is related to legal and professional fees associated with the SEC investigation. The \$31 million charge related to real estate costs of \$3 million. The Company intends to terminate approximately 1,400 employees. As of December 31, 2002, a liability of approximately \$31 million is recorded.

During the year ended December 31, 2001, the Company recorded \$15 million of approximately 145,000 (unaudited) data customers from the Excite@Home Internet service associated with certain employee severance costs.

During the year ended December 31, 2001, the Company recorded \$15 million of approximately 145,000 (unaudited) data customers from the Excite@Home Internet service associated with certain employee severance costs.

In December 2001, the Company implemented a restructuring plan to consolidate its three and operating regions from twelve to ten. The restructuring plan resulted in the termination of approximately 320 employees and severance costs of \$4 million of which \$3 million was recorded in the fourth quarter of 2001.

In December 2001, the Company implemented a restructuring plan to consolidate its three and operating regions from twelve to ten. The restructuring plan resulted in the termination of approximately 320 employees and severance costs of \$4 million of which \$3 million was recorded in the fourth quarter of 2001.

22. Income Taxes

All operations are held through Charter Holdco and its direct and indirect subsidiaries. Charter Holdco and the majority of its subsidiaries are not subject to income tax. However, certain of these subsidiaries are corporations and the income of Charter Holdco are passed through to its members: Charter, Charter

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Charter is responsible for its share of taxable income or loss of Charter Holdco allocated to it in accordance with the Charter Holdco amended and restated limited liability company agreement ("Agreement") and partnership tax rules and regulations.

The Agreement provides for certain special allocations of net tax profits and net tax losses (such net tax profits and net tax losses being determined under the applicable federal income tax rules for determining capital accounts). Pursuant to the Agreement, through the end of 2003, net tax losses of Charter Holdco that would otherwise have been allocated to Charter based generally on its percentage ownership of outstanding common units will be allocated instead to the membership units held by Vulcan Cable and Charter Investment (the "Special Loss Allocations") to the extent of their capital account balances. The Agreement further provides that, beginning at the time Charter Holdco first generates net tax profits, the net tax profits that would otherwise have been allocated to Charter based generally on its percentage ownership of outstanding common membership units will instead be allocated to Vulcan Cable and Charter Investment (the "Special Profit Allocations"). The Special Profit Allocations to Vulcan Cable and Charter Investment will generally continue until the cumulative amount of the Special Profit Allocations offsets the cumulative amount of the Special Loss Allocations. The Agreement generally provides that any additional net tax profits are to be allocated proportionately among the members of Charter Holdco based on their ownership of Charter Holdco membership units. The cumulative amount of the actual income tax losses allocated to Vulcan Cable and Charter Investment as a result of the Special Loss Allocations through the period ended December 31, 2002 is approximately \$3.3 billion.

In certain situations, the Special Loss Allocations and Special Profit Allocations described above could result in Charter paying taxes in an amount that is more or less than if Charter Holdco had allocated net tax profits and net tax losses among its members based generally on the number of common membership units owned by such members. This could occur due to differences in (i) the character of the allocated income (e.g., ordinary versus capital), (ii) the allocated amount and timing of tax depreciation and tax amortization expense due to application of section 704(c) under the Internal Revenue Code, (iii) the amount and timing of alternative minimum taxes paid by Charter, (iv) the apportionment of the allocated income or loss among the states in which Charter Holdco does business, and (v) future federal and state tax laws. Further, in the event of new capital contributions to Charter Holdco, it is possible that the tax effects of the Special Profit Allocations and Special Loss Allocations will change significantly pursuant to the provisions of the income tax regulations. Such change could defer the actual tax benefits to be derived by Charter with respect to the net tax losses allocated to it or accelerate the actual taxable income to Charter with respect to the net tax profits allocated to it. As a result, it is possible under certain circumstances, that Charter could receive future allocations of taxable income in excess of its currently allocated tax deductions and available tax loss carryforwards.

In addition to the aforementioned reasons, under their exchange agreement with Charter, Vulcan Cable and Charter Investment may exchange some or all of their membership units in Charter Holdco for Charter's Class B common stock, be merged with Charter, or be acquired by Charter in a non-taxable reorganization. If such an exchange were to take place prior to the date that the Special Profit Allocation provisions had fully offset the Special Loss Allocations, Vulcan Cable and Charter Investment could elect to cause Charter Holdco to make the remaining Special Profit Allocations to Vulcan Cable and Charter Investment immediately prior to the consummation of the exchange. In the event Vulcan Cable and Charter Investment choose not to make such election or to the extent such allocations are not possible, Charter would then be allocated tax profits attributable to the membership units received in such exchange pursuant to the Special Profit Allocation provisions. The Company's principal shareholder has generally agreed to reimburse Charter for any incremental income taxes that Charter would owe as a result of such an exchange and any resulting future Special Profit Allocations to Charter.

For the years ended December 31, 2002, 2001 and 2000, the Company recorded deferred income tax benefits as shown below. The income tax benefits are realized through reductions in the deferred tax liabilities related to Charter's investment in Charter Holdco, as well as the deferred tax liabilities of certain of Charter's indirect corporate subsidiaries.

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Current and deferred income tax expense (benefit) is as follows (dollars in millions):

	December 31,		
	2002	2001	2000
Current expense:			
Federal income taxes	\$ —	\$ —	\$ —
State income taxes	2	—	—
Current income tax expense	2	—	—
Deferred benefit:			
Federal income taxes	(456)	(11)	(9)
State income taxes	(66)	(1)	(1)
Deferred income tax benefit	(522)	(12)	(10)
Total income benefit	\$ (520)	\$ (12)	\$ (10)

The Company's effective tax rate differs from that derived by applying the applicable Federal income tax rate of 35%, and average state income tax rate of 5% for the years ended December 31, 2002, 2001 and 2000 as follows (dollars in millions):

	December 31,		
	2002	2001	2000
Statutory federal income taxes	\$ (969)	\$ (409)	\$ (304)
State income taxes, net of federal benefit	(138)	(58)	(43)
Valuation allowance provided	587	455	337
Provision for income taxes	\$ (520)	\$ (12)	\$ (10)

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The tax effects of these temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2002, 2001 and 2000 which are included in long-term liabilities are presented below (dollars in millions).

	December 31.		
	2002	2001	2000
Deferred tax assets:			
Net operating loss carryforward	\$ 1,489	\$ 893	\$ 423
Other	9	9	8
Total gross deferred tax assets	1,498	902	431
Less: valuation allowance	(1,444)	(857)	(402)
Net deferred tax assets	\$ 54	\$ 45	\$ 29
Deferred tax liabilities:			
Investment in Charter Holdco	\$ (266)	\$ (671)	\$ (671)
Property, plant & equipment	(47)	(34)	(15)
Franchises	(240)	(493)	(523)
Gross deferred tax liabilities	(553)	(1,198)	(1,209)
Net deferred tax liabilities	\$ (499)	\$ (1,153)	\$ (1,180)

As of December 31, 2002, the Company has deferred tax assets of \$1.4 billion, which primarily relate to the excess of cumulative financial statement losses over cumulative tax losses allocated from Charter Holdco. The deferred tax assets also include \$322 million of tax net operating loss carryforwards (generally expiring in years 2003 through 2022) of Charter and its indirect corporate subsidiaries, which are subject to separate return limitations. Valuation allowances of \$277 million exist with respect to these carryforwards.

The total valuation allowance for deferred tax assets as of December 31, 2002, 2001 and 2000 was \$1.4 billion, \$857 million and \$402 million, respectively. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. Because of the uncertainties in projecting future taxable income of Charter Holdco, valuation allowances have been established except for deferred benefits available to offset deferred tax liabilities.

The Company is currently under examination by the Internal Revenue Service for the tax years ending December 31, 1999 and 2000. Management does not expect the results of this examination to have a material adverse effect on the Company's consolidated financial position or results of operation.

23. Related Party Transactions

The following sets forth certain transactions in which the Company and the directors, executive officers and affiliates of the Company are involved. Unless otherwise disclosed, management believes that each of the transactions described below was on terms no less favorable to the Company than could have been obtained from independent third parties.

Charter has entered into management arrangements with Charter Holdco and certain of its subsidiaries. Under these agreements, Charter provides management services for the cable television systems owned or operated by its subsidiaries. The management services include such services as centralized customer billing services, data processing and related support, benefits administration and coordination of insurance coverage and self-insurance.

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programs for medical, dental and workers' compensation claims. Certain costs for these services are billed and charged directly to the Company's operating subsidiaries and are included within operating costs. Such costs totaled \$176 million, \$119 million and \$51 million for the years ended December 31, 2002, 2001 and 2000, respectively. All other costs incurred on the behalf of the Company's operating subsidiaries are considered a part of the management fee and are recorded as corporate expense in the accompanying consolidated financial statements. For the years ended December 31, 2002, 2001 and 2000, the management fee charged to the Company's operating subsidiaries approximated the corporate expenses incurred by Charter Holdco and Charter on behalf of the Company's operating subsidiaries. The credit facilities of the Company's operating subsidiaries prohibit payments of management fees in excess of 3.5% of revenues until repayment of the outstanding indebtedness. In the event any portion of the management fee due and payable is not paid, it is deferred by Charter and accrued as a liability of such subsidiaries. Any deferred amount of the management fee will bear interest at the rate of 10% per annum, compounded annually, from the date it was due and payable until the date it is paid.

Mr. Allen, the controlling shareholder of Charter, and a number of his affiliates have interests in various entities that provide services or programming to Charter's subsidiaries. Given the diverse nature of Mr. Allen's investment activities and interests, and to avoid the possibility of future disputes as to potential business, Charter may not, and may not allow its subsidiaries to, engage in any business transaction outside the cable transmission business except for certain existing approved investments. Should Charter or its subsidiaries wish to pursue a business transaction outside of this scope, it must first offer Mr. Allen the opportunity to pursue the particular business transaction. If he decides not to pursue the business transaction and consents to Charter or its subsidiaries to engage in the business transaction, they will be able to do so. The cable transmission business means the business of transmitting video, audio, including telephony, and data over cable television systems owned, operated or managed by Charter or its subsidiaries from time to time.

Mr. Allen or his affiliates own equity interests or warrants to purchase equity interests in various entities with which the Company does business or which provides it with products, services or programming. Among these entities are TechTV Inc. (TechTV), Oxygen Media Corporation (Oxygen Media), Digeo, Inc., Click2learn, Inc., Trail Blazer Inc., Action Sports Cable Network (Action Sports) and Microsoft Corporation. In addition, Mr. Allen and Mr. Savoy were directors of USA Networks, Inc. (USA Networks), who operates the USA Network, The Sci-Fi Channel, Trio, World News International and Home Shopping Network, owning approximately 5% and less than 1%, respectively, of the common stock of USA Networks. In 2002, Mr. Allen and Mr. Savoy sold their common stock and are no longer directors of the USA Network. Mr. Allen owns 100% of the equity of Vulcan Ventures Incorporated (Vulcan Ventures) and Vulcan Inc. and is the president of Vulcan Ventures. Mr. Savoy is also a vice president and a director of Vulcan Ventures. The various cable, media, Internet and telephony companies in which Mr. Allen has invested may mutually benefit one another. The agreements governing the Company's relationship with Digeo, Inc. are an example of a cooperative business relationship among Mr. Allen's affiliated companies. The Company can give no assurance that any of these business relationships will be successful, that the Company will realize any benefits from these relationships or that the Company will enter into any business relationships in the future with Mr. Allen's affiliated companies.

Mr. Allen and his affiliates have made, and in the future likely will make, numerous investments outside of the Company and its business. The Company cannot assure that, in the event that the Company or any of its subsidiaries enter into transactions in the future with any affiliate of Mr. Allen, such transactions will be on terms as favorable to the Company as terms it might have obtained from an unrelated third party. Also, conflicts could arise with respect to the allocation of corporate opportunities between the Company and Mr. Allen and his affiliates. The Company has not instituted any formal plan or arrangement to address potential conflicts of interest.

High Speed Access Corp. (High Speed Access) has been a provider of high-speed Internet access services over cable modems. During the period from 1997 to 2000, certain Charter entities entered into Internet-access related service agreements, and both Vulcan Ventures, an entity controlled by Mr. Allen, and certain of Charter's subsidiaries made equity investments in High Speed Access.

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On February 28, 2002, Charter's subsidiary and an affiliate to the Company, CC Systems, purchased from High Speed Access the contracts and associated assets, and assumed related liabilities, that served the Company's customers, including a customer contact center, network operations center and provisioning software. Immediately prior to the asset purchase, Vulcan Ventures beneficially owned approximately 37%, and the Company beneficially owned approximately 13%, of the common stock of High Speed Access (including the shares of common stock which could be acquired upon conversion of the Series D preferred stock, and upon exercise of the warrants owned by Charter Communications Holding Company). Following the consummation of the asset purchase, neither the Company nor Vulcan Ventures beneficially owned any securities of, or were otherwise affiliated with, High Speed Access.

The Company receives or will receive programming for broadcast via its cable systems from TechTV, USA Networks, Oxygen Media and Action Sports. The Company pays a fee for the programming service generally based on the number of customers receiving the service. Such fees for the years ended December 31, 2002 and 2001 were each less than 2% of total operating expenses. In addition, the Company receives commissions from USA Networks for home shopping sales generated by its customers. Such revenues for the years ended December 31, 2002 and 2001 were less than 1% of total revenues. On November 5, 2002, Action Sports announced that it was discontinuing its business. The Company believes that the failure of Action Sports will not materially affect the Company's business or results of operations.

As discussed in Note 5, in April 2002, Interlink Communications Partners, LLC, Rifkin Acquisition Partners, LLC and Charter Communications Entertainment I, LLC, each an indirect, wholly-owned subsidiary of the Company, completed the cash purchase of certain assets of Enstar Income Program II-2, L.P., Enstar Income Program IV-3, L.P., Enstar Income/Growth Program Six-A, L.P., Enstar Cable of Macoupin County and Enstar Income IV/PBD Systems Venture, serving in the aggregate approximately 21,600 (unaudited) customers, for a total cash sale price of approximately \$48 million. In September 2002, Charter Communications Entertainment I, LLC purchased all of Enstar Income Program II-1, L.P.'s Illinois cable television systems, serving approximately 6,400 (unaudited) customers, for a cash sale price of \$15 million. Enstar Communications Corporation, a direct subsidiary of Charter Holdco, is a general partner of the Enstar limited partnerships but does not exercise control over them. All of the executive officers of Charter and Charter Holdco act as officers of Enstar Communications Corporation.

The Company purchases certain equipment for use in the Company's business from ADC Telecommunications, which provides broadband access and network equipment. Mr. Wangberg, a director for Charter, serves as a director for ADC Telecommunications. Such fees for the years ended December 31, 2002 and 2001 were each less than 1% of total operating expenses under this arrangement.

On January 10, 2003 Charter signed an agreement to carry two around-the-clock, high-definition networks, HDNet and HDNet Movies. The Company believes that entities controlled by Mr. Mark Cuban, co-founder and president of HDNet, owns 96.9% of HDNet and HDNet Movies as of December 31, 2002. As of December 31, 2002 Mr. Cuban, owns approximately 5.3% equity interest in Charter.

As part of the Bresnan acquisition in February 2000, CC VIII, an indirect limited liability company subsidiary of Charter, issued the CC VIII Interest to the Comcast Sellers. The CC VIII Interest is entitled to a 2% priority return on its initial capital amount and such priority return is entitled to preferential distributions from available cash and upon liquidation of CC VIII. The CC VIII Interest generally does not share in the profits and losses of CC VIII at present. The Comcast Sellers have the right at their option to exchange the CC VIII Interest for shares of Charter Class A common stock. Charter does not have the right to force such an exchange. In connection with the Bresnan acquisition, Mr. Allen granted the Comcast Sellers the right to sell to Mr. Allen the CC VIII Interest (or any Charter Class A common stock that the Comcast Sellers would receive if they exercised their exchange right) for approximately \$630 million plus 4.5% interest annually from February 2000. In April 2002, in accordance with such put agreement, the Comcast Sellers notified Mr. Allen of their exercise of the Comcast Put Right in full, and the parties agreed to consummate the sale in April 2003, although the parties also agreed to negotiate in good faith possible alternatives to the closing. On April 9, 2003, the parties agreed to extend the closing for up to thirty days. If the sale to Mr. Allen is consummated, Mr. Allen would become the holder of the CC VIII Interest (or, if previously exchanged by the current holders, any Charter Class A common stock issued to the current holders upon

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such exchange). If the CC VIII Interest is transferred to Mr. Allen, then, subject to the matters referenced in the next paragraph, Mr. Allen generally thereafter would be allocated his pro rata share (based on number of membership interests outstanding) of profits or losses of CC VIII. In the event of a liquidation of CC VIII, Mr. Allen would not be entitled to any priority distributions (except with respect to the 2% priority return, as to which such priority would continue), and Mr. Allen's share of any remaining distributions in liquidation would be equal to the initial capital account of the Comcast Sellers of approximately \$630 million, increased or decreased by Mr. Allen's pro rata share of CC VIII's profits or losses (as computed for capital account purposes) after the date of the transfer of the CC VIII Interest to Mr. Allen.

An issue has arisen as to whether the documentation for the Bresnan transaction was correct and complete with regard to the ultimate ownership of the CC VIII Interest following consummation of the Comcast Put Right. Our Board of Directors has formed a Special Committee comprised of Messrs. Tory, Wangberg and Nelson to investigate and take any other appropriate action on behalf of the Company with respect to this matter. Specifically, the Special Committee is considering whether it should be the position of Charter that Mr. Allen should be required to contribute the CC VIII Interest to Charter Holdco in exchange for Charter Holdco membership units, immediately after his acquisition of the CC VIII Interest upon consummation of the Comcast Put Right. To the extent it is ultimately determined that Mr. Allen must contribute the CC VIII Interest to Charter Holdco following consummation of the Comcast Put Right, the Special Committee may also consider what additional steps, if any, should be taken with respect to the further disposition of the CC VIII Interest by Charter Holdco. If necessary, following the completion of the Special Committee's investigation of the facts and circumstances relating to this matter, the Special Committee and Mr. Allen have agreed to a non-binding mediation process to resolve any dispute relating to this matter as soon as practicable, but without any prejudice to any rights of the parties if such dispute is not resolved as part of the mediation.

24. Commitments and Contingencies

Leases

The Company leases certain facilities and equipment under noncancellable operating leases. Leases and rental costs charged to expense for the years ended December 31, 2002, 2001 and 2000, were \$31 million, \$25 million and \$23 million, respectively. As of December 31, 2002, future minimum lease payments are as follows (in millions):

Year	Amount
2003	\$18,456
2004	14,202
2005	12,190
2006	9,212
2007	6,145
Thereafter	20,726

The Company also rents utility poles in its operations. Generally, pole rentals are cancelable on short notice, but the Company anticipates that such rentals will recur. Rent expense incurred for pole rental attachments for the years ended December 31, 2002, 2001 and 2000, was \$41 million, \$33 million and \$31 million, respectively. The Company pays programming fees under multi-year contracts ranging from three to six years typically based on a flat fee per customer, which may be fixed for the term or may in some cases, escalate over the term. Total programming costs paid to programmers were \$1.2 billion, \$951 million and \$763 million for the years ended December 31, 2002, 2001 and 2000, respectively.

Litigation

Fourteen putative federal class action lawsuits (the "Federal Class Actions") have been filed against Charter and certain of its former and present officers and directors in various jurisdictions allegedly on behalf of all purchasers of Charter's securities during the period from either November 8 or November 9, 1999 through July 17 or July 18, 2002. Unspecified damages are sought by the plaintiffs. In general, the lawsuits allege that Charter utilized misleading accounting practices and failed to disclose these accounting practices and/or issued false and misleading financial statements and press releases concerning Charter's operations and prospects.

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In October 2002, Charter filed a motion with the Judicial Panel on Multidistrict Litigation (the "Panel") to transfer the Federal Class Actions to the Eastern District of Missouri. On March 12, 2003, the Panel transferred the six Federal Class Actions not filed in the Eastern District of Missouri to that district for coordinated or consolidated pretrial proceedings with the eight Federal Class Actions already pending there. The Panel's transfer order assigned the Federal Class Actions to Judge Charles A. Shaw. By virtue of a prior court order, StoneRidge Investment Partners LLC became lead plaintiff upon entry of the Panel's transfer order. We anticipate that the lead plaintiff will file a single consolidated amended complaint shortly. No response from Charter will be due until after this consolidated amended complaint is filed.

On September 12, 2002, a shareholders derivative suit (the "State Derivative Action") was filed in Missouri state court against Charter and its current directors, as well as its former auditors. A substantively identical derivative action was later filed and consolidated into the State Derivative Action. The plaintiffs allege that the individual defendants breached their fiduciary duties by failing to establish and maintain adequate internal controls and procedures. Unspecified damages, allegedly on Charter's behalf, are sought by the plaintiffs.

Separately, on February 12, 2003, a shareholders derivative suit (the "Federal Derivative Action"), was filed against Charter and its current directors in the United States District Court for the Eastern District of Missouri. The plaintiff alleges that the individual defendants breached their fiduciary duties and grossly mismanaged Charter by failing to establish and maintain adequate internal controls and procedures. Unspecified damages, allegedly on the Charter's behalf, are sought by the plaintiffs.

In addition to the Federal Class Actions, the State Derivative Action and the Federal Derivative Action, six putative class action lawsuits have been filed against Charter and certain of its current directors and officers in the Court of Chancery of the State of Delaware (the "Delaware Class Actions"). The Delaware Class Actions are substantively identical and generally allege that the defendants breached their fiduciary duties by participating or acquiescing in a purported and threatened attempt by Defendant Paul Allen to purchase shares and assets of Charter at an unfair price. The lawsuits were brought on behalf of Charter's securities holders as of July 29, 2002, and seek unspecified damages and possible injunctive relief. No such proposed transaction by Mr. Allen has been presented.

The lawsuits discussed above are each in preliminary stages and no dispositive motions or other responses to any of the complaints have been filed. No reserves have been established for those matters because the Company believes they are either not estimable or not probable. Charter intends to vigorously defend the lawsuits.

In August of 2002, Charter became aware of a grand jury investigation being conducted by the United States Attorney's Office for the Eastern District of Missouri into certain of its accounting and reporting practices, focusing on how Charter reported customer numbers, refunds that Charter sought from programmers and its reporting of amounts received from digital set-top terminal suppliers for advertising. Charter has been advised by the U.S. Attorney's Office that no member of the Board of Directors, including its Chief Executive Officer, is a target of the investigation. Charter is fully cooperating with the investigation.

On November 4, 2002, Charter received an informal, non-public inquiry from the Staff of the Securities and Exchange Commission (SEC). The SEC has subsequently issued a formal order of investigation dated January 23, 2003, and subsequent document subpoenas. The investigation and subpoenas generally concern Charter's prior reports with respect to its determination of the number of customers, and various of its other accounting policies and practices including its capitalization of certain expenses and dealings with certain vendors, including programmers and digital set-top terminal suppliers. Charter is actively cooperating with the SEC Staff.

Charter is unable to predict the outcome of the lawsuits and the government investigations described above. An unfavorable outcome in the lawsuits or the government investigations described above could have a material adverse effect on Charter's results of operations and financial condition.

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Charter is generally required to indemnify each of the named individual defendants in connection with these matters pursuant to the terms of its Bylaws and (where applicable) such individual defendants' employment agreements. Pursuant to the terms of certain employment agreements and in accordance with the Bylaws of Charter, in connection with the pending grand jury investigation, SEC investigation and the above described lawsuits, Charter's current directors and its current and former officers have been advanced certain costs and expenses incurred in connection with their defense.

In addition to the matters set forth above, Charter is also party to other lawsuits and claims that arose in the ordinary course of conducting its business. In the opinion of management, after taking into account recorded liabilities, the outcome of these other lawsuits and claims will not have a material adverse effect on the Company's consolidated financial position or results of operations.

Charter has directors' and officers' liability insurance coverage that it believes is available for these matters, subject to the terms, conditions and limitations of the respective policies.

Regulation in the Cable Industry

The operation of a cable system is extensively regulated by the Federal Communications Commission (FCC), some state governments and most local governments. The FCC has the authority to enforce its regulations through the imposition of substantial fines, the issuance of cease and desist orders and/or the imposition of other administrative sanctions, such as the revocation of FCC licenses needed to operate certain transmission facilities used in connection with cable operations. The 1996 Telecom Act altered the regulatory structure governing the nation's communications providers. It removed barriers to competition in both the cable television market and the local telephone market. Among other things, it reduced the scope of cable rate regulation and encouraged additional competition in the video programming industry by allowing local telephone companies to provide video programming in their own telephone service areas.

The 1996 Telecom Act required the FCC to undertake a number of implementing rulemakings. Moreover, Congress and the FCC have frequently revisited the subject of cable regulation. Future legislative and regulatory changes could adversely affect the Company's operations.

The 1992 Cable Act permits certified local franchising authorities to order refunds of basic service tier rates paid in the previous twelve-month period determined to be in excess of the maximum permitted rates. During the years ended December 31, 2002, 2001 and 2000, the amounts refunded by the Company have been insignificant. The Company may be required to refund additional amounts in the future.

25. Employee Benefit Plan

The Company's employees may participate in the Charter Communications, Inc. 401(k) Plan. Employees that qualify for participation can contribute up to 50% of their salary, on a pre-tax basis, subject to a maximum contribution limit as determined by the Internal Revenue Service. The Company matches 50% of the first 5% of participant contributions. The Company made contributions to the 401(k) plan totaling \$8 million, \$9 million and \$7 million for the years ended December 31, 2002, 2001 and 2000, respectively.

26. Recently Issued Accounting Standards

Statement of Financial Accounting Standards (SFAS) No. 143, "Accounting for Asset Retirement Obligations," addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. The Company will adopt SFAS No. 143 on January 1, 2003. The Company does not expect the adoption of SFAS No. 143 to have a material impact on the Company's financial condition or results of operations.

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In April 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145 provides for the rescission of several previously issued accounting standards, new accounting guidance for the accounting for certain lease modifications and various technical corrections that are not substantive in nature to existing pronouncements. The Company will adopt SFAS No. 145 beginning January 1, 2003, except for the provisions relating to the amendment of SFAS No. 13, which will be adopted for transactions occurring subsequent to May 15, 2002. The Company does not expect the adoption of SFAS No. 145 to have a material impact on the consolidated financial statements of the Company.

In June 2002, the Financial Accounting Standards Board issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS 146 requires that a liability for costs associated with an exit or disposal activity be recognized when the liability is incurred rather than when a company commits to such an activity and also establishes fair value as the objective for initial measurement of the liability. SFAS No. 146 will be adopted by the Company for exit or disposal activities that are initiated after December 31, 2002. Adoption will not have a material impact on the consolidated financial statements of the Company.

In December 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 148, "Accounting for Stock-Based Compensation — Transition and Disclosure." SFAS No. 148 amends SFAS No. 123 to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, it amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based compensation and the effect of the method used on reported results. The Company adopted SFAS No. 148 beginning January 1, 2003. On January 1, 2003, the Company also adopted SFAS No. 123, "Accounting for Stock-Based Compensation" on the prospective method under which the Company will recognize compensation expense of a stock-based award to an employee over the vesting period based on the fair value of the award on the grant date.

27. Parent Company Only Financial Statements

As the result of limitations on, and prohibitions of, distributions, substantially all of the net assets of the consolidated subsidiaries are restricted for distribution to Charter, the parent company. The following condensed parent-only financial statements of Charter account for the investment in Charter Holdco under the equity method of accounting. The financial statements should be read in conjunction with the consolidated financial statements of the Company and notes thereto. The information in this footnote has been revised from the information previously reported to reflect the Company's restatement of its consolidated financial statements of the years ended December 31, 2001 and 2000. See Note 3 for a description of the restatement.

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Charter Communications, Inc. (Parent Company Only)

Condensed Balance Sheet

	December 31, 2002
ASSETS	
Cash and cash equivalents	\$ 10
Receivable from related party	3
Investment in Charter Holdco	308
Notes receivable from Charter Holdco	1,433
	<u>\$ 1,754</u>
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current liabilities	\$ 13
Convertible notes	1,383
Deferred income taxes	266
Preferred stock — redeemable	51
Shareholders' equity	41
Total liabilities and shareholders' equity	<u>\$ 1,754</u>

Condensed Statement of Operations

	Year Ended December 31, 2002
REVENUES	
Interest income	\$ 76
Management fees	9
Total revenues	<u>85</u>
EXPENSES	
Equity in losses of Charter Holdco	(2,922)
General and administrative expenses	(9)
Interest expense	(73)
Total expenses	<u>(3,004)</u>
Net loss before income taxes	(2,919)
Income taxes	405
Net loss	<u>(2,514)</u>
Dividend on preferred equity	(3)
Net loss after preferred dividends	<u>\$ (2,517)</u>

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CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
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Condensed Statements of Cash Flows

	Year Ended December 31, 2002
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net loss after preferred dividends	\$ (2,517)
Equity in losses of Charter Holdco	2,922
Changes in operating assets and liabilities	10
Deferred income taxes	(405)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Investment in Charter Holdco	—
NET INCREASE IN CASH AND CASH EQUIVALENTS	10
CASH AND CASH EQUIVALENTS, beginning of year	—
CASH AND CASH EQUIVALENTS, end of year	\$ 10

The following table sets forth the parent-only condensed balance sheet, statement of operations and statement of cash flows of Charter which accounts for the investment in Charter Holdco under the equity method of accounting, showing previously reported and restated amounts as of December 31, 2001 (in millions):

Condensed Balance Sheet

	December 31, 2001	
	(As previously reported)	(As restated)
ASSETS		
Receivable from related party	\$ 14	\$ 14
Investment in Charter Holdco	2,912	3,256
Notes receivable from Charter Holdco	1,383	1,433
	<u>\$ 4,309</u>	<u>\$ 4,703</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities	\$ 14	\$ 13
Convertible notes	1,383	1,383
Deferred income taxes	—	671
Preferred stock — redeemable	51	51
Shareholders' equity	2,361	2,585
Total liabilities and shareholders' equity	<u>\$ 4,309</u>	<u>\$ 4,703</u>

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Condensed Statement of Operations

	Year Ended December 31, 2001	
	(As previously reported)	(As restated)
REVENUES		
Interest income	\$ 60	\$ 61
Management fees	6	6
Total revenues	66	67
EXPENSES		
Equity in losses of Charter Holdco	(1,179)	(1,168)
General and administrative expenses	(6)	(6)
Interest expense	(59)	(60)
Total expenses	(1,244)	(1,234)
Net loss	(1,178)	(1,167)
Dividend on preferred equity	(1)	(1)
Net loss after preferred dividends	<u>\$(1,179)</u>	<u>\$(1,168)</u>

Condensed Statements of Cash Flows

	Year Ended December 31, 2001	
	(As previously reported)	(As restated)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss after preferred dividends	\$(1,179)	\$(1,168)
Equity in losses of Charter Holdco	1,179	1,168
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investments in and receivables from Charter Holdco	(633)	(633)
Investment in Charter Holdco	(1,224)	(1,224)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of convertible notes	633	633
Net proceeds from issuance of common stock	1,218	1,218
Other	6	6
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>—</u>	<u>—</u>
CASH AND CASH EQUIVALENTS, beginning of year	<u>—</u>	<u>—</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ —</u>	<u>\$ —</u>

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The following table sets forth the parent-only condensed balance sheet, statement of operations and statement of cash flows of Charter which accounts for the investment in Charter Holdco under the equity method of accounting, showing previously reported and restated amounts as of December 31, 2000 (in millions):

Condensed Balance Sheet

	December 31, 2000	
	(As previously reported)	(As restated)
ASSETS		
Receivable from related party	\$ —	\$ 10
Investment in Charter Holdco	4,228	3,447
Notes receivable from Charter Holdco	750	750
	<u>\$4,978</u>	<u>\$4,207</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities	\$ —	\$ 11
Payables to related party	1	—
Convertible notes	750	750
Deferred income taxes	—	671
Redeemable securities	1,104	8
Shareholders' equity	3,123	2,767
	<u>\$4,978</u>	<u>\$4,207</u>
Total liabilities and shareholders' equity		

Condensed Statement of Operations

	Year Ended December 31, 2000	
	(As previously reported)	(As restated)
REVENUES		
Interest income	\$ 9	\$ 7
Management fees	5	5
	<u>14</u>	<u>12</u>
EXPENSES		
Equity in losses of Charter Holdco	(829)	(858)
General and administrative expenses	(5)	(5)
Interest expense	(9)	(7)
	<u>(843)</u>	<u>(870)</u>
Total expenses		
Net loss	<u>\$(829)</u>	<u>\$(858)</u>

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Condensed Statements of Cash Flows

	Year Ended December 31, 2000	
	(As previously reported)	(As restated)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$(829)	\$(858)
Equity in losses of Charter Holdco	829	858
Changes in operating assets and liabilities	(19)	(19)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investments in and receivables from Charter Holdco	(750)	(750)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of convertible notes	750	750
NET DECREASE IN CASH AND CASH EQUIVALENTS	(19)	(19)
CASH AND CASH EQUIVALENTS, beginning of year	19	19
CASH AND CASH EQUIVALENTS, end of year	\$ —	\$ —

28. Unaudited Quarterly Financial Data (Restated)

The information in this footnote has been revised from the information previously reported to reflect the Company's restatement of its financial statements for the years ended December 31, 2002, 2001 and 2000. See Note 3 for a description of the restatement.

The following table presents quarterly data for the periods presented on the consolidated statement of operations:

	Year ended December 31, 2002			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	\$ 1,074	\$ 1,137	\$ 1,166	\$ 1,189
Income (loss) from operations	97	85	91	(4,393)
Loss before minority interest, income taxes and cumulative effect of accounting change	(234)	(354)	(368)	(4,991)
Net loss applicable to common stock	(317)	(160)	(167)	(1,873)
Basic and diluted loss per common share before cumulative effect of accounting change	(0.17)	(0.54)	(0.56)	(6.36)
Basic and diluted loss per common share	(1.07)	(0.54)	(0.57)	(6.36)
Weighted-average shares outstanding	294,394,939	294,453,454	294,454,659	294,457,934

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	Year ended December 31, 2001			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	\$ 856	\$ 897	\$ 1,002	\$ 1,052
Loss from operations	(293)	(288)	(285)	(334)
Loss before minority interest, income taxes and cumulative effect of accounting change	(637)	(626)	(713)	(657)
Net loss applicable to common stock	(268)	(266)	(350)	(304)
Basic and diluted loss per common share before cumulative effect of accounting change	(1.11)	(1.04)	(1.12)	(1.03)
Basic and diluted loss per common share	(1.15)	(1.04)	(1.12)	(1.03)
Weighted-average shares outstanding	233,777,675	254,027,543	294,250,549	294,384,003

	Year ended December 31, 2000			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	\$ 721	\$ 788	\$ 808	\$ 824
Loss from operations	(234)	(263)	(283)	(308)
Loss before minority interest and income taxes	(457)	(510)	(560)	(623)
Net loss applicable to common stock	(181)	(202)	(222)	(253)
Basic and diluted loss per common share	(0.81)	(0.91)	(0.99)	(1.08)
Weighted-average shares outstanding	221,917,083	222,089,746	224,965,289	233,738,668

The following tables reconcile the Company's previously filed quarterly financial data to the restated quarterly financial data included herein for revisions described more fully in Note 2 (in millions, except for share data). A summary of the nature of the reconciling items for each quarter has been provided below each table and should be read in conjunction with Note 3.

	For the Three Months Ended March 31, 2002		
	As previously reported	Adjustments	As restated
Revenues	\$ 1,078	\$ (4)	\$ 1,074
Income (loss) from operations	(38)	135	97
Loss before minority interest, income taxes and cumulative effect of accounting change	(371)	137	(234)
Net loss applicable to common stock	(175)	(142)	(317)
Basic and diluted loss per common share before cumulative effect of accounting change	(0.59)	0.42	(0.17)
Basic and diluted loss per common share	(0.59)	(0.48)	(1.07)
Weighted average common shares outstanding, basic and diluted	294,394,939	—	294,394,939

Net loss applicable to common stock increased due to impairment of franchises caused by additional franchises being recorded in prior years related to corrections to purchase accounting for acquisitions in 1999 and 2000 and due to the expensing of certain costs originally capitalized associated with customer acquisition and installation and deferral of launch incentives. These adjustments were offset by the reversal of depreciation expense associated with certain assets that were not taken out of service in the Company's rebuild and upgrade plan and the tax benefit generated by these adjustments.

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For the Three Months Ended June 30, 2002

	As previously reported	Adjustments	As restated
Revenues	\$ 1,158	\$ (21)	\$ 1,137
Income from operations	8	77	85
Loss before minority interest and income taxes	(431)	77	(354)
Net loss applicable to common stock	(203)	43	(160)
Basic and diluted loss per common share	(0.69)	0.15	(0.54)
Weighted average common shares outstanding, basic and diluted	294,453,454	—	294,453,454

Net loss applicable to common stock decreased as a result of the reversal of depreciation expense associated with certain assets that were not taken out of service in the Company's rebuild and upgrade plan, offset by the expensing of certain costs originally capitalized associated with customer acquisition and installation and deferral of launch incentives.

For the Three Months Ended September 30, 2002

	As previously reported	Adjustments	As restated
Revenues	\$ 1,179	\$ (13)	\$ 1,166
Income (loss) from operations	(17)	108	91
Loss before minority interest and income taxes	(493)	125	(368)
Net loss applicable to common stock	(240)	73	(167)
Basic and diluted loss per common share	(0.81)	0.25	(0.56)
Weighted average common shares outstanding, basic and diluted	294,454,659	—	294,454,659

The nature of the items decreasing net loss applicable to common stock was primarily the same as in the three months ended June 30, 2002, except for a decline in customer acquisition costs as the Company eliminated its customer acquisition campaigns through third-party contractors.

For the Three Months Ended March 31, 2001

	As previously reported	Adjustments	As restated
Revenues	\$ 874	\$ (18)	\$ 856
Loss from operations	(314)	21	(293)
Loss before minority interest, income taxes and cumulative effect of accounting change	(685)	48	(637)
Net loss applicable to common stock	(281)	13	(268)
Basic and diluted loss per common share before cumulative effect of accounting change	(1.20)	0.09	(1.11)
Basic and diluted loss per common share	(1.20)	(0.05)	(1.15)
Weighted average common shares outstanding, basic and diluted	233,777,675	—	233,777,675

The nature of the items decreasing net loss applicable to common stock was primarily the same as in the three months ended June 30, 2002.

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CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
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For the Three Months Ended June 30, 2001

	As previously reported	Adjustments	As restated
Revenues	\$ 928	\$ (31)	\$ 897
Loss from operations	(298)	10	(288)
Loss before minority interest and income taxes	(637)	11	(626)
Net loss applicable to common stock	(274)	8	(266)
Basic and diluted loss per common share	(1.07)	0.03	(1.04)
Weighted average common shares outstanding, basic and diluted	255,027,543	—	255,027,543

The nature of the items decreasing net loss applicable to common stock was primarily the same as in the three months ended June 30, 2002.

For the Three Months Ended September 30, 2001

	As previously reported	Adjustments	As restated
Revenues	\$ 1,044	\$ (42)	\$ 1,002
Loss from operations	(250)	(35)	(285)
Loss before minority interest and income taxes	(680)	(33)	(713)
Net loss applicable to common stock	(318)	(12)	(330)
Basic and diluted loss per common share	(1.08)	(0.04)	(1.12)
Weighted average common shares outstanding, basic and diluted	294,250,549	—	294,250,549

The nature of the items decreasing net loss applicable to common stock was primarily the same as in the three months ended June 30, 2002.

For the Three Months Ended December 31, 2001

	As previously reported	Adjustments	As restated
Revenues	\$ 1,107	\$ (55)	\$ 1,052
Loss from operations	(333)	(1)	(334)
Loss before minority interest and income	(655)	2	(657)
Net loss applicable to common stock	(306)	2	(304)
Basic and diluted loss per common share	(1.04)	0.01	(1.03)
Weighted average common shares outstanding, basic and diluted	294,384,003	—	294,384,003

The nature of the items decreasing net loss applicable to common stock was primarily the same as in the three months ended June 30, 2002.

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For the Three Months Ended March 31, 2000

	As previously reported	Adjustments	As restated
Revenues	\$ 722	\$ (1)	\$ 721
Loss from operations	(224)	(10)	(234)
Loss before minority interest and income taxes	(450)	(7)	(457)
Net loss applicable to common stock	(181)	—	(181)
Basic and diluted loss per common share	(0.81)	—	(0.81)
Weighted average common shares outstanding, basic and diluted	221,917,083	—	221,917,083

Net loss applicable to common stock increased due to the expensing of certain costs originally capitalized associated with customer installation and deferral of launch incentives. These adjustments were offset by the reversal of depreciation expense associated with certain assets that were not taken out of service in the Company's rebuild and upgrade plan.

For the Three Months Ended June 30, 2000

	As previously reported	Adjustments	As restated
Revenues	\$ 795	\$ (7)	\$ 788
Loss from operations	(241)	(22)	(263)
Loss before minority interest and income taxes	(494)	(16)	(510)
Net loss applicable to common stock	(197)	(5)	(202)
Basic and diluted loss per common share	(0.89)	(0.02)	(0.91)
Weighted average common shares outstanding, basic and diluted	222,089,746	—	222,089,746

The nature of the items increasing net loss applicable to common stock was primarily the same as in the three months ended March 31, 2000.

For the Three Months Ended September 30, 2000

	As previously reported	Adjustments	As restated
Revenues	\$ 839	\$ (31)	\$ 808
Loss from operations	(237)	(46)	(283)
Loss before minority interest and income taxes	(523)	(37)	(560)
Net loss applicable to common stock	(210)	(12)	(222)
Basic and diluted loss per common share	(0.93)	(0.06)	(0.99)
Weighted average common shares outstanding, basic and diluted	224,965,289	—	224,965,289

The nature of the items increasing net loss applicable to common stock was primarily the same as in the three months ended March 31, 2000.

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CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
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(dollars in millions, except where indicated)

For the Three Months Ended December 31, 2000

	As previously reported	Adjustments	As restated
REVENUES	\$ 893	\$ (69)	\$ 824
Loss from operations	(269)	(39)	(308)
Loss before minority interest and income taxes	(588)	(35)	(623)
Net loss applicable to common stock	(241)	(12)	(253)
Basic and diluted loss per common share	(1.03)	(0.05)	(1.08)
Weighted average common shares outstanding, basic and diluted	233,738,668	—	233,738,668

The nature of the items increasing net loss applicable to common stock was primarily the same as in the three months ended March 31, 2000 with an additional adjustment to expense certain costs originally capitalized as customer acquisition costs.

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

For the year ended December 31, 2002

or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the transition period from _____ to _____
Commission file number: 000-27927



Charter Communications, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

48-1857213

(I.R.S. Employer Identification Number)

12405 Powerscourt Drive
St. Louis, Missouri 63131

(314) 965-0555

(Address of principal executive offices including zip code)

(Registrant's telephone number, including area code)

Securities registered pursuant to section 12(b) of the Act: None

Securities registered pursuant to section 12(g) of the Act:

Class A Common Stock, \$.001 Par Value

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by checkmark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☒ No ☐

The aggregate market value of the registrant of outstanding Class A Common Stock held by non-affiliates of the registrant at June 28, 2002 was approximately \$1.1 billion, computed based on the closing sale price as quoted on the Nasdaq National Market on that date. For purposes of this calculation only, directors, executive officers and the principal controlling shareholder of the registrant are deemed to be affiliates of the registrant.

There were 294,527,595 shares of Class A Common Stock outstanding as of February 28, 2003. There were 50,000 shares of Class B Common Stock outstanding as of the same date.

Documents Incorporated By Reference

The following documents are incorporated into this Report by reference: None

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CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
(dollars in millions)

	December 31,		
	2002	2001	2000
		(restated)	(restated)
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	\$ 321	\$ 2	\$ 131
Accounts receivable, less allowance for doubtful accounts of \$19, \$33 and \$12, respectively	259	292	209
Receivables from related party	8	5	—
Prepaid expenses and other current assets	45	70	87
Total current assets	633	369	427
INVESTMENT IN CABLE PROPERTIES:			
Property, plant and equipment, net of accumulated depreciation of \$2,634, \$1,928 and \$1,150, respectively	7,679	6,914	4,829
Franchises, net of accumulated amortization of \$3,452, \$3,443 and \$2,006, respectively	13,727	18,911	18,835
Total investment in cable properties, net	21,406	25,825	23,664
OTHER ASSETS	345	269	261
Total assets	\$22,384	\$26,463	\$24,352
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Accounts payable and accrued expenses	\$ 1,405	\$ 1,379	\$ 1,343
Total current liabilities	1,405	1,379	1,343
LONG-TERM DEBT	18,671	16,343	13,061
DEFERRED MANAGEMENT FEES – RELATED PARTY	14	14	14
OTHER LONG-TERM LIABILITIES	1,177	1,682	1,517
MINORITY INTEREST	1,025	4,409	4,546
REDEEMABLE SECURITIES	—	—	1,104
PREFERRED STOCK – REDEEMABLE; \$.001 par value; 1 million shares authorized; 505,664 shares issued and outstanding	51	51	—
SHAREHOLDERS' EQUITY:			
Class A Common stock; \$.001 par value; 1.75 billion shares authorized; 294,620,408, 294,536,830 and 233,702,135 shares issued and outstanding, respectively	—	—	—
Class B Common stock; \$.001 par value; 750 million shares authorized; 50,000 shares issued and outstanding	—	—	—
Preferred stock; \$.001 par value; 250 million shares authorized; no non-redeemable shares issued and outstanding	—	—	—
Additional paid-in capital	4,697	4,694	3,691
Accumulated deficit	(4,609)	(2,092)	(924)
Accumulated other comprehensive loss	(47)	(17)	—
Total shareholders' equity	41	2,585	2,767
Total liabilities and shareholders' equity	\$22,384	\$26,463	\$24,352

The accompanying notes are an integral part of these consolidated financial statements.

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CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(dollars in millions, except per share data)

	Year Ended December 31,		
	2002	2001	2000
		(restated)	(restated)
REVENUES	\$ 4,566	\$ 3,807	\$ 3,141
COSTS AND EXPENSES:			
Operating (excluding depreciation and amortization and other items listed below)	1,804	1,480	1,185
Selling, general and administrative	966	832	608
Depreciation and amortization	1,437	2,682	2,398
Impairment of franchises	4,638	—	—
Option compensation expense, net	5	(5)	38
Special charges	36	18	—
	<u>8,886</u>	<u>5,007</u>	<u>4,229</u>
Loss from operations	(4,320)	(1,200)	(1,088)
OTHER INCOME (EXPENSE):			
Interest expense, net	(1,506)	(1,313)	(1,042)
Loss on equity investments	(3)	(54)	(19)
Other, net	(118)	(66)	(1)
	<u>(1,627)</u>	<u>(1,433)</u>	<u>(1,062)</u>
Loss before minority interest, income taxes and cumulative effect of accounting change	(5,947)	(2,633)	(2,150)
MINORITY INTEREST	3,179	1,464	1,282
	<u>(2,768)</u>	<u>(1,169)</u>	<u>(868)</u>
Loss before income taxes and cumulative effect of accounting change	520	12	10
INCOME TAX BENEFIT			
Loss before cumulative effect of accounting change	(2,248)	(1,157)	(858)
CUMULATIVE EFFECT OF ACCOUNTING CHANGE	(266)	(10)	—
	<u>(2,514)</u>	<u>(1,167)</u>	<u>(858)</u>
Net loss	(3)	(1)	—
Dividends on preferred stock — redeemable			
Net loss applicable to common stock	\$ (2,517)	\$ (1,168)	\$ (858)
LOSS PER COMMON SHARE, basic and diluted	\$ (8.55)	\$ (4.33)	\$ (3.80)
Weighted average common shares outstanding, basic and diluted	294,440,261	269,594,386	225,697,775

The accompanying notes are an integral part of these consolidated financial statements.

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CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(dollars in millions)

	Class A Common Stock	Class B Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
BALANCE, December 31, 1999	\$—	\$—	\$3,075	\$ (66)	\$ 2	\$ 3,011
Issuance of common stock related to acquisitions	—	—	178	—	—	178
Redeemable securities reclassified as equity	—	—	693	—	—	693
Unrealized loss on marketable securities available for sale	—	—	—	—	(2)	(2)
Option compensation expense, net (restated)	—	—	16	—	—	16
Loss on issuance of equity by subsidiary (restated)	—	—	(272)	—	—	(272)
Stock options exercised	—	—	1	—	—	1
Net loss (restated)	—	—	—	(858)	—	(858)
BALANCE, December 31, 2000 (restated)	—	—	3,691	(924)	—	2,767
Issuance of common stock related to acquisitions	—	—	2	—	—	2
Net proceeds from issuance of common stock	—	—	1,218	—	—	1,218
Redeemable securities reclassified as equity	—	—	9	—	—	9
Contributions from Charter Investment, Inc. (restated)	—	—	25	—	—	25
Changes in fair value of interest rate agreements	—	—	—	—	(17)	(17)
Option compensation expense, net (restated)	—	—	(3)	—	—	(3)
Loss on issuance of equity by subsidiary (restated)	—	—	(253)	—	—	(253)
Stock options exercised	—	—	5	—	—	5
Dividends on preferred stock — redeemable	—	—	—	(1)	—	(1)
Net loss (restated)	—	—	—	(1,167)	—	(1,167)
BALANCE, December 31, 2001 (restated)	—	—	4,694	(2,092)	(17)	2,585
Issuance of common stock related to acquisitions	—	—	2	—	—	2
Changes in fair value of interest rate agreements	—	—	—	—	(30)	(30)
Option compensation expense, net	—	—	2	—	—	2
Loss on issuance of equity by subsidiary	—	—	(1)	—	—	(1)
Dividends on preferred stock — redeemable	—	—	—	(3)	—	(3)
Net loss	—	—	—	(2,514)	—	(2,514)
BALANCE, December 31, 2002	\$—	\$—	\$4,697	\$(4,609)	\$(47)	\$ 41

The accompanying notes are an integral part of these consolidated financial statements.

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CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in millions)

	Year Ended December 31,		
	2002	2001	2000
		(restated)	(restated)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	\$(2,514)	\$(1,167)	\$ (858)
Adjustments to reconcile net loss to net cash flows from operating activities:			
Minority interest	(3,179)	(1,464)	(1,282)
Depreciation and amortization	1,437	2,682	2,398
Impairment of franchises	4,638	—	—
Option compensation expense, net	5	(5)	38
Noncash interest expense	395	295	174
Loss on equity investments	3	54	19
Loss on derivative instruments and hedging activities, net	115	50	—
Deferred income taxes	(520)	(12)	(10)
Cumulative effect of accounting change	266	10	—
Changes in operating assets and liabilities, net of effects from acquisitions:			
Accounts receivable	27	(73)	(130)
Prepaid expenses and other current assets	26	(11)	(2)
Accounts payable and accrued expenses	52	125	523
Receivables from and payables to related party, including deferred management fees	(3)	—	(35)
Other operating activities	—	5	(7)
Net cash flows from operating activities	<u>748</u>	<u>489</u>	<u>828</u>
CASH FLOWS FROM INVESTMENT ACTIVITIES:			
Purchases of property, plant and equipment	(2,222)	(3,001)	(2,536)
Payments for acquisitions, net of cash acquired	(139)	(1,755)	(1,188)
Purchases of investments	(12)	(3)	(59)
Other investing activities	10	(15)	32
Net cash flows from investing activities	<u>(2,363)</u>	<u>(4,774)</u>	<u>(3,751)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of common stock	2	1,223	—
Borrowings of long-term debt	4,106	7,310	7,505
Repayments of long-term debt	(2,134)	(4,290)	(4,500)
Payments for debt issuance costs	(40)	(87)	(85)
Net cash flows from financing activities	<u>1,934</u>	<u>4,156</u>	<u>2,920</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>319</u>	<u>(129)</u>	<u>(3)</u>
CASH AND CASH EQUIVALENTS, beginning of period	<u>2</u>	<u>131</u>	<u>134</u>
CASH AND CASH EQUIVALENTS, end of period	<u>\$ 321</u>	<u>\$ 2</u>	<u>\$ 131</u>
CASH PAID FOR INTEREST	<u>\$ 1,103</u>	<u>\$ 994</u>	<u>\$ 772</u>
NONCASH TRANSACTIONS:			
Reclassification of redeemable securities to equity and minority interest	\$ —	\$ 1,105	\$ 742
Exchange of cable system for acquisition	—	25	—
Issuances of preferred stock – redeemable, as payment for acquisitions	—	51	—
Issuances of equity as partial payments for acquisitions	—	2	1,192

The accompanying notes are an integral part of these consolidated financial statements.

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CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(dollars in millions, except where indicated)

1. Organization

Charter Communications, Inc. (Charter) is a holding company whose primary asset at December 31, 2002 is a 47% controlling common equity interest in Charter Communications Holding Company, LLC (Charter Holdco), which, in turn, is the sole owner of Charter Communications Holdings, LLC (Charter Holdings). Charter, Charter Holdco and its subsidiaries are collectively referred to herein as the "Company." The Company owns and operates cable systems that provide a full range of traditional analog television services to the home, along with advanced broadband services, including television on an advanced digital programming platform and high-speed Internet access. The Company also provides commercial high-speed data, video, telephony and Internet services as well as advertising sales and production services.

2. Liquidity and Capital Resources

The Company has incurred losses from operations of \$4.3 billion, \$1.2 billion and \$1.1 billion in 2002, 2001 and 2000, respectively. The Company's net cash flows from operating activities were \$748 million, \$489 million and \$828 million for the years ending December 31, 2002, 2001 and 2000, respectively. In addition, the Company has required significant cash to fund capital expenditures, debt service costs and ongoing operations. Historically the Company has funded liquidity and capital requirements through cash flows from operations, borrowing under the credit facilities of the Company's subsidiaries, and by issuances of debt and equity securities. The mix of funding sources changes from period to period, but for the year ended December 31, 2002, approximately 70% of the Company's funding requirements were from cash flows from operations, 16% was from borrowings under the credit facilities of the Company's subsidiaries and 14% was for the issuance of debt by the Company's subsidiaries.

The Company expects that cash on hand, cash flows from operations and the funds available under the bank facilities and borrowings under the Vulcan Inc. commitment described in Note 10 will be adequate to meet its 2003 cash needs. However, the bank facilities are subject to certain restrictive covenants, portions of which are subject to the operating results of the Company's subsidiaries. The Company's 2003 operating plan maintains compliance with these covenants. If the Company's actual operating results do not maintain compliance with these covenants, or if other events of noncompliance occur, funding under the bank facilities may not be available and defaults on some or potentially all debt obligations could occur. In addition, no assurances can be given that the Company may not experience liquidity problems because of adverse market conditions or other unfavorable events or if the Company does not obtain sufficient additional financing on a timely basis. The Company has arranged additional availability as described in Note 10.

The indenture governing the Charter Holdco notes permits Charter Holdings and its subsidiaries to make payments to the extent of its outstanding unsubordinated intercompany debt to Charter Holdco, which had an aggregate principal amount of approximately \$73 million as of December 31, 2002. That amount is only sufficient to enable Charter to make interest payments on its convertible senior notes through December, 2003, and is not sufficient to enable Charter to make interest payments beginning in April, 2004 or to repay all or any portion of its convertible senior notes at maturity.

Accordingly, Charter will not be able to make interest payments beginning in April, 2004, or principal payments at maturity in 2005 and 2006, with respect to its convertible senior notes unless it can obtain additional financing or it receives distributions or other payments from its subsidiaries. The indentures governing the Charter Holdings notes permit Charter Holdings to make distributions to Charter Holdco only if, at the time of distribution, Charter Holdings can meet a leverage ratio of 8.75 to 1.0, there is no default under the indentures and other specified tests are met.

The Company's long-term financing structure as of December 31, 2002 includes \$7.8 billion of credit facility debt, \$9.5 billion of high-yield debt and \$1.4 billion of convertible subordinated debentures. Approximately \$236 million of this financing matures during 2003. Note 10 discusses the Company's current availability and long-term obligations, interest obligations and provides a schedule of maturity.

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CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2002, 2001 AND 2000
(dollars in millions, except where indicated)

3. Restatements of Consolidated Financial Results

The Company has identified a series of adjustments that have resulted in the restatement of the previously issued financial statements for the years ended December 31, 2001 and 2000. These adjustments also resulted in the restatements of previously announced quarterly results for the first three quarters of fiscal 2002 and each quarter during fiscal 2001 and 2000, as more fully described in Note 28. In summary, the adjustments are grouped into the following categories: (i) launch incentives from programmers; (ii) customer incentives and inducements; (iii) capitalized labor and overhead costs; (iv) customer acquisition costs; (v) rebuild and upgrade of cable systems; (vi) deferred tax liabilities/franchise assets; and (vii) other adjustments. These adjustments reduced revenue for the years ended December 31, 2001 and 2000 by \$146 million and \$108 million, respectively. The Company's consolidated net loss decreased by \$11 million for the year ended December 31, 2001. Net loss increased by \$29 million for the year ended December 31, 2000, primarily due to adjustments related to the original accounting for acquisitions and for elements of the rebuild and upgrade activities. In addition, as a result of certain of these adjustments, the Company's statements of cash flows have been restated. Cash flows from operations for the years ended December 31, 2001 and 2000 were reduced by \$30 million and \$303 million, respectively. The more significant categories of adjustment relate to the following as outlined below.

Launch Incentives from Programmers. Amounts previously recognized as advertising revenue in connection with the launch of new programming channels have been deferred and recorded in other long-term liabilities in the year such launch support was provided, and amortized as a reduction of programming costs based upon the relevant contract term. These adjustments decreased revenue by \$118 million and \$76 million for the years ended December 31, 2001 and 2000, respectively. Additionally, for the year ended December 31, 2000, the Company increased marketing expense by \$24 million for other promotional activities associated with launching new programming services previously deferred and subsequently amortized. The corresponding amortization of such deferred amounts reduced programming expenses by \$27 million and \$5 million for the years ended December 31, 2001 and 2000, respectively.

Customer Incentives and Inducements. Marketing inducements paid to encourage potential customers to switch from satellite providers to Charter branded services and enter into multi-period service agreements were previously deferred and recorded as property, plant and equipment and recognized as depreciation and amortization expense over the life of customer contracts. These amounts have been restated as a reduction of revenues in the period such inducements were paid. Revenue declined \$19 million and \$2 million for the years ended December 31, 2001 and 2000, respectively. Substantially all of these amounts are offset by reduced depreciation and amortization expense.

Capitalized Labor and Overhead Costs. Certain elements of labor costs and related overhead allocations previously capitalized as property, plant and equipment as part of the Company's rebuild activities, customer installations and new service introductions have been expensed in the period incurred. Such adjustments increased operating expenses by \$93 million and \$52 million for the years ended December 31, 2001 and 2000, respectively.

Customer Acquisition Costs. Certain customer acquisition campaigns were conducted through third-party contractors in 2000, 2001 and portions of 2002. The costs of these campaigns were originally deferred and recorded as other assets and recognized as amortization expense over the average customer contract life. These amounts have been reported as marketing expense in the period incurred and totaled \$59 million and \$4 million and for the years ended December 31, 2001 and 2000, respectively. The Company discontinued this program in the third quarter of 2002 as contracts for third-party vendors expired. Substantially all of these amounts are offset by reduced depreciation and amortization expense.

Rebuild and Upgrade of Cable Systems. In 2000, the Company initiated a three-year program to replace and upgrade a substantial portion of its network. In connection with this plan, the Company assessed the carrying value of, and the associated depreciable lives of, various assets to be replaced. It was determined that \$1 billion of cable distribution system assets, originally treated as subject to replacement, were not part of the original replacement plan but were to be upgraded and have remained in service. The Company also determined that certain assets subject to replacement during the upgrade program were misstated in the allocation of the purchase price of the acquisition. This adjustment is a reduction to property, plant and equipment and increased franchise costs of approximately \$627

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CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
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(dollars in millions, except where indicated)

million as a result of this finding. In addition, the depreciation period for the replacement assets was adjusted to more closely align with the intended service period of these assets rather than the three-year straight-line life originally assigned. As a result, adjustments were recorded to reduce depreciation expense \$330 million and \$119 million in the years ending 2001 and 2000, respectively.

Deferred Tax Liabilities/Franchise Assets. Adjustments were made to record deferred tax liabilities associated with the acquisition of various cable television businesses. These adjustments increased amounts assigned to franchise assets by \$1.4 billion with a corresponding increase in deferred tax liabilities of \$1.2 billion. The balance of the entry was recorded to equity and minority interest. In addition, as described above, a correction was made to reduce amounts assigned in purchase accounting to assets identified for replacement over the three-year period of the Company's rebuild and upgrade of its network. This reduced the amount assigned to the network assets to be retained and increased the amount assigned to franchise assets by approximately \$627 million with a resulting increase in amortization expense for the years restated. Such adjustments increased amortization expense by \$130 million and \$121 million, respectively, for the years ended December 31, 2001 and 2000.

Other Adjustments. In addition to the items described above, reductions to 2000 revenues include the reversal of certain advertising revenues from equipment vendors. Other adjustments of expenses include expensing certain marketing and customer acquisition costs previously charged against purchase accounting reserves, certain tax reclassifications from tax expense to operating costs, reclassifying management fee revenue from a joint venture to offset losses from investments and adjustments to option compensation expense. The net impact of these adjustments to net loss is an increase of \$38 million and a decrease of \$10 million, respectively, for the years ended December 31, 2001 and 2000.

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The following table sets forth the consolidated balance sheet for the Company, showing previously reported and restated amounts, as of December 31, 2001 (in millions):

	As previously reported	As restated
CURRENT ASSETS:		
Cash and cash equivalents	\$ 2	\$ 2
Accounts receivable, net	290	292
Receivables from related parties	5	5
Prepaid expenses and other current assets	70	70
	<u>367</u>	<u>369</u>
Total current assets	<u>367</u>	<u>369</u>
INVESTMENT IN CABLE PROPERTIES:		
Property, plant and equipment, net	7,150	6,914
Franchises, net	17,139	18,911
	<u>24,289</u>	<u>25,825</u>
Total investment in cable properties, net	<u>24,289</u>	<u>25,825</u>
OTHER ASSETS	<u>306</u>	<u>269</u>
Total assets	<u>\$24,962</u>	<u>\$26,463</u>
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 1,375	\$ 1,379
	<u>1,375</u>	<u>1,379</u>
Total current liabilities	<u>1,375</u>	<u>1,379</u>
LONG-TERM DEBT	<u>16,343</u>	<u>16,343</u>
DEFERRED MANAGEMENT FEES — RELATED PARTY	<u>14</u>	<u>14</u>
OTHER LONG-TERM LIABILITIES	<u>341</u>	<u>1,682</u>
MINORITY INTEREST	<u>3,976</u>	<u>4,409</u>
PREFERRED STOCK — REDEEMABLE	<u>51</u>	<u>51</u>
SHAREHOLDERS' EQUITY:		
Class A common stock	—	—
Class B common stock	—	—
Preferred stock	—	—
Additional paid-in capital	4,953	4,694
Accumulated deficit	(2,073)	(2,092)
Accumulated other comprehensive loss	(18)	(17)
	<u>2,862</u>	<u>2,585</u>
Total shareholders' equity	<u>2,862</u>	<u>2,585</u>
Total liabilities and shareholders' equity	<u>\$24,962</u>	<u>\$26,463</u>

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The following table sets forth the consolidated statement of operations for the Company, showing previously reported and restated amounts, for the year ended December 31, 2001 (in millions, except share data):

	As previously reported	As restated
REVENUES	\$ 3,953	\$ 3,807
COSTS AND EXPENSES:		
Operating (excluding depreciation and amortization and other items listed below)	1,326	1,480
Selling, general and administrative	841	832
Depreciation and amortization	3,010	2,682
Option compensation expense, net	(46)	(5)
Special charges	18	18
	5,149	5,007
Loss from operations	(1,196)	(1,200)
OTHER INCOME (EXPENSE):		
Interest expense, net	(1,312)	(1,313)
Loss on equity investments	(54)	(54)
Other, net	(94)	(66)
	(1,460)	(1,433)
Loss before minority interest, income taxes and cumulative effect of accounting change	(2,656)	(2,633)
MINORITY INTEREST	1,478	1,464
Loss before income taxes and cumulative effect of accounting change	(1,178)	(1,169)
INCOME TAX BENEFIT	—	12
Loss before cumulative effect of accounting change	(1,178)	(1,157)
CUMULATIVE EFFECT OF ACCOUNTING CHANGE	—	(10)
Net loss	(1,178)	(1,167)
Dividends on preferred stock – redeemable	(1)	(1)
Net loss applicable to common stock	\$ (1,179)	\$ (1,168)
LOSS PER COMMON SHARE, basic and diluted	\$ (4.37)	\$ (4.33)
Weighted average common shares outstanding, basic and diluted	269,594,386	269,594,386

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The following table sets forth the consolidated balance sheet for the Company, showing previously reported and restated amounts, as of December 31, 2000 (in millions):

	As previously reported	As restated
CURRENT ASSETS:		
Cash and cash equivalents	\$ 131	\$ 131
Accounts receivable, net	218	209
Receivables from related parties	6	—
Prepaid expenses and other current assets	78	87
Total current assets	433	427
INVESTMENT IN CABLE PROPERTIES:		
Property, plant and equipment, net	5,267	4,829
Franchises, net	17,069	18,835
Total investment in cable properties, net	22,336	23,664
OTHER ASSETS	275	261
Total assets	\$23,044	\$24,352
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 1,367	\$ 1,343
Total current liabilities	1,367	1,343
LONG-TERM DEBT	13,061	13,061
DEFERRED MANAGEMENT FEES — RELATED PARTY	14	14
OTHER LONG-TERM LIABILITIES	285	1,517
MINORITY INTEREST	4,090	4,546
REDEEMABLE SECURITIES	1,104	1,104
SHAREHOLDERS' EQUITY:		
Class A common stock	—	—
Class B common stock	—	—
Preferred stock	—	—
Additional paid-in capital	4,018	3,691
Accumulated deficit	(895)	(924)
Total shareholders' equity	3,123	2,767
Total liabilities and shareholders' equity	\$23,044	\$24,352

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The following table sets forth the consolidated statement of operations for the Company, showing previously reported and restated amounts, for the year ended December 31, 2000 (in millions, except share data):

	As previously reported	As restated
REVENUES	\$ 3,249	\$ 3,141
COSTS AND EXPENSES:		
Operating (excluding depreciation and amortization and other items listed below)	1,036	1,185
Selling, general and administrative	670	608
Depreciation and amortization	2,473	2,398
Option compensation expense, net	41	38
	4,220	4,229
Loss from operations	(971)	(1,088)
OTHER INCOME (EXPENSE):		
Interest expense, net	(1,052)	(1,042)
Loss on equity investments	(19)	(19)
Other, net	(13)	(1)
	(1,084)	(1,062)
Loss before minority interest and income taxes	(2,055)	(2,150)
MINORITY INTEREST	1,226	1,282
Loss before income taxes	(829)	(868)
INCOME TAX BENEFIT	—	10
Net loss	\$ (829)	\$ (858)
LOSS PER COMMON SHARE, basic and diluted	\$ (3.67)	\$ (3.80)
Weighted average common shares outstanding, basic and diluted	225,697,775	225,697,775

The following table sets forth selected consolidated statements of cash flows information for the Company, showing previously reported and restated amounts, for the years ended December 31, 2001 and 2000 (in millions):

	2001		2000	
	As previously reported	As restated	As previously reported	As restated
Net cash from operating activities	\$ 519	\$ 489	\$ 1,131	\$ 828
Net cash from investing activities	(4,809)	(4,774)	(4,054)	(3,751)
Net cash from financing activities	\$ 4,162	\$ 4,156	\$ 2,920	\$ 2,920

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4. Summary of Significant Accounting Policies*Basis of Consolidation and Presentation*

The consolidated financial statements of the Company include the accounts of Charter, Charter Holdco, Charter Holdings and all of their wholly-owned subsidiaries and those subsidiaries over which Charter exercises voting control. Currently, Charter Holdco is the only subsidiary in which the Company consolidates on the basis of voting control. All significant intercompany accounts and transactions among consolidated entities have been eliminated. All amounts presented for 2000 and 2001 in the financial statements and accompanying notes have been adjusted to reflect the restated results in Note 3.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant judgments and estimates include capitalization of labor and overhead costs, depreciation and amortization costs, impairments of property, plant and equipment, franchises and goodwill, income taxes and other contingencies. Actual results could differ from those estimates.

Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. These investments are carried at cost, which approximates market value.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost, including all material labor and certain indirect costs associated with the construction of cable transmission and distribution facilities. Costs associated with initial customer installations and the additions of network equipment necessary to enable advanced services are capitalized. Costs capitalized as part of initial customer installations include materials, labor, and certain indirect costs. These indirect costs are associated with the activities of the Company's personnel who assist in connecting and activating the new service and consist of compensation and overhead costs associated with these support functions. Overhead costs primarily include employee benefits and payroll taxes, direct variable costs associated with capitalizable activities, consisting primarily of installation and construction vehicle costs, the cost of dispatch personnel and indirect costs directly attributable to capitalizable activities. The costs of disconnecting service at a customer's dwelling or reconnecting service to a previously installed dwelling are charged to operating expense in the period incurred. Costs for repairs and maintenance are charged to operating expense as incurred, while equipment replacement and betterments, including replacement of cable drops from the pole to the dwelling, are capitalized.

Depreciation is recorded using the straight-line method over management's estimate of the useful lives of the related assets as follows:

Cable distribution systems	7-15 years
Customer equipment and installations	3-5 years
Vehicles and equipment	1-5 years
Buildings and leasehold improvements	5-15 years
Furniture and fixtures	5 years

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Franchises

Franchise rights acquired through the purchase of cable systems represent management's estimate of fair value at the date of acquisition and generally are reviewed to determine if the franchise has a finite life or an indefinite life as defined by Statement of Financial Accounting Standards (SFAS) No. 142. On January 1, 2002, the Company adopted SFAS No. 142, which eliminates the amortization of goodwill and indefinite lived intangible assets. Accordingly, beginning January 1, 2002, all franchises that qualify for indefinite life treatment under SFAS No. 142 are no longer amortized against earnings but instead are tested for impairment annually as of October 1, or more frequently as warranted by events or changes in circumstances (See Note 8). Certain franchises did not qualify for indefinite-life treatment due to technological or operational factors that limit their lives. These franchise costs are amortized on a straight-line basis over 10 years. Costs incurred in renewing cable franchises are deferred and amortized over 10 years.

Prior to the adoption of SFAS No. 142, costs incurred in obtaining and renewing cable franchises were deferred and amortized using the straight-line method over a period of 15 years. Franchise rights acquired through the purchase of cable systems were generally amortized using the straight-line method over a period of 15 years. The period of 15 years was management's best estimate of the useful lives of the franchises and assumed that substantially all of those franchises that expired during the period would be renewed but not indefinitely. The Company evaluated the recoverability of franchises for impairment when events or changes in circumstances indicated that the carrying amount of an asset may not be recoverable. Because substantially all of the Company's franchise rights have been acquired in the past several years, at the time of acquisition management believed the Company did not have sufficient experience with the local franchise authorities to conclude that renewals of franchises could be accomplished indefinitely.

The Company believes that facts and circumstances have changed to enable it to conclude that substantially all of its franchises will be renewed indefinitely, with those franchises where technological or operational factors limit their lives continuing to be amortized. The Company has sufficiently upgraded the technological state of its cable systems and now has sufficient experience with the local franchise authorities where it acquired franchises to conclude substantially all franchises will be renewed indefinitely.

Other Assets

Other assets primarily include goodwill, deferred financing costs and investments in equity securities. Costs related to borrowings are deferred and amortized to interest expense using the effective interest method over the terms of the related borrowings. As of December 31, 2002, 2001 and 2000, other assets include \$231 million, \$230 million and \$171 million of deferred financing costs, net of accumulated amortization of \$106 million, \$67 million and \$35 million, respectively.

Investments in equity securities are accounted for at cost, under the equity method of accounting or in accordance with Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Charter recognizes losses for any decline in value considered to be other than temporary. Certain marketable equity securities are classified as available-for-sale and reported at market value with unrealized gains and losses recorded as accumulated other comprehensive income or loss.

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The following summarizes investment information as of and for the years ended December 31, 2002, 2001 and 2000 (in millions):

	Carrying Value at December 31,			Gain (loss) for the Year Ended December 31,		
	2002	2001	2000	2002	2001	2000
Equity investments, under the cost method	\$ 17	\$ 13	\$ 14	\$ —	\$ (8)	\$(12)
Equity investments, under the equity method	16	12	49	(5)	(42)	(8)
Marketable securities, at market value	—	4	4	2	(4)	1
	<u>\$ 33</u>	<u>\$ 29</u>	<u>\$ 67</u>	<u>\$ (3)</u>	<u>\$ (54)</u>	<u>\$(19)</u>

Valuation of Property, Plant and Equipment

The Company evaluates the recoverability of property, plant and equipment, for impairment when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Such events or changes in circumstances could include such factors as changes in technological advances, fluctuations in the fair value of such assets, adverse changes in relationships with local franchise authorities, adverse changes in market conditions or poor operating results. If a review indicates that the carrying value of such asset is not recoverable from estimated undiscounted cash flows, the carrying value of such asset is reduced to its estimated fair value. While the Company believes that its estimates of future cash flows are reasonable, different assumptions regarding such cash flows could materially affect its evaluations of asset recoverability. No impairment of property, plant and equipment occurred in 2002, 2001 and 2000.

Derivative Financial Instruments

The Company uses interest rate risk management derivative instruments, such as interest rate swap agreements, interest rate cap agreements and interest rate collar agreements (collectively referred to herein as interest rate agreements) as required under the terms of the credit facilities of the Company's subsidiaries. The Company's policy is to manage interest costs using a mix of fixed and variable rate debt. Using interest rate swap agreements, the Company agrees to exchange, at specified intervals, the difference between fixed and variable interest amounts calculate by reference to an agreed-upon notional principal amount. Interest rate cap agreements are used to lock in a maximum interest rate should variable rates rise, but enable the Company to otherwise pay lower market rates. Interest rate collar agreements are used to limit exposure to and benefits from interest rate fluctuations on variable rate debt to within a certain range of rates. The Company does not hold or issue any derivative financial instruments for trading purposes.

Revenue Recognition

Revenues from analog, digital and high-speed data services are recognized when the related services are provided. Advertising sales are recognized in the period that the advertisements are broadcast. Local governmental authorities impose franchise fees on the Company ranging up to a federally mandated maximum of 5% of gross revenues as defined in the franchise agreement. Such fees are collected on a monthly basis from the Company's customers and are periodically remitted to local franchise authorities. Franchise fees collected and paid are reported as revenues and expenses, respectively.

Programming Costs

The Company has various contracts to obtain analog, digital and premium programming from program suppliers whose compensation is typically based on a flat fee per customer. The cost of the right to exhibit network programming under such arrangements is recorded in operating expenses in the month the programming is available for exhibition. Programming costs are paid each month based on calculations performed by the Company and are subject to adjustment based on periodic audits performed by the programmers. Additionally, certain programming contracts contain launch incentives to be paid by the programmers. The Company receives these upfront payments related to the promotion and activation of the programmer's cable television channel and defers recognition of the

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launch incentives over the life of the programming agreement as an offset to programming expense. This offset to programming expense was \$57 million, \$35 million and \$4 million for the years ended December 31, 2002, 2001 and 2000, respectively. Total programming costs paid to programmers were \$1.2 billion, \$951 million and \$763 million for the years ended December 31, 2002, 2001 and 2000, respectively. As of December 31, 2002, 2001 and 2000, the deferred amount of launch incentives, included in other long-term liabilities, totaled \$210 million, \$215 million and \$126 million, respectively.

Advertising Costs

Advertising costs, including advertising associated with the launch of cable channels, are generally expensed as costs are incurred. Advertising expense was \$74 million, \$52 million and \$60 million for the years ended December 31, 2002, 2001 and 2000, respectively.

Stock-Based Compensation

The Company has historically accounted for stock-based compensation in accordance with Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations, as permitted by SFAS No. 123, "Accounting for Stock-Based Compensation." On January 1, 2003, the Company adopted the fair value measurement provisions of SFAS No. 123 using the prospective method under which the Company will recognize compensation expense of a stock-based award to an employee over the vesting period based on the fair value of the award on the grant date consistent with the method described in Financial Accounting Standards Board Interpretation No. 28 (FIN 28), *Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans*. Adoption of these provisions will result in utilizing a preferable accounting method as the consolidated financial statements will present the estimated fair value of stock-based compensation in expense consistently with other forms of compensation and other expense associated with goods and services received for equity instruments. In accordance with SFAS No. 148, the fair value method will be applied only to awards granted or modified after January 1, 2003, whereas awards granted prior to such date will continue to be accounted for under APB No. 25, unless they are modified or settled in cash. Management believes the adoption of these provisions will not have a material impact on the consolidated results of operations or financial position of the Company. The ongoing effect on consolidated results of operations or financial position will be dependent upon future stock based compensation awards granted by the Company. Had the Company adopted SFAS No. 123 as of January 1, 2002, using the prospective method, option compensation expense for the year ended December 31, 2002 would have been approximately \$20 million.

SFAS No. 123 requires pro forma disclosure of the impact on earnings as if the compensation expense for these plans had been determined using the fair value method. The following table presents the Company's net loss and loss per share as reported and the pro forma amounts that would have been reported using the fair value method under SFAS 123 for the years presented:

	Year Ended December 31,		
	2002	2001	2000
Net loss applicable to common stock (in millions):	\$ (2,517)	\$ (1,168)	\$ (858)
Pro forma	(2,571)	(1,226)	(878)
Loss per common shares, basic and diluted:	(8.55)	(4.33)	(3.80)
Pro forma	(8.73)	(4.55)	(3.89)

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model. The following weighted average assumptions were used for grants during the years ended December 31, 2002, 2001 and 2000, respectively: risk-free interest rates of 3.6%, 4.7%, and 6.5%; expected volatility of 64.2%, 56.2% and 43.8%; and expected lives of 3.3 years, 3.7 years and 3.5 years, respectively. The valuations assume no dividends are paid.

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Income Taxes

The Company recognizes deferred tax assets and liabilities for temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities and expected benefits of utilizing net operating loss carryforwards. The impact on deferred taxes of changes in tax rates and tax law, if any, applied to the years during which temporary differences are expected to be settled, are reflected in the consolidated financial statements in the period of enactment (see Note 22).

Minority Interest

Minority interest represents total members' equity of Charter Holdco not owned by Charter, plus preferred membership interests in an indirect subsidiary of Charter held by certain sellers of the Bresnan systems, less redeemable securities. Minority interest totaled \$1.0 billion, \$4.4 billion and \$4.5 billion as of December 31, 2002, 2001 and 2000, respectively, on the accompanying consolidated balance sheets. Gains or losses arising from issuances by Charter Holdco of its membership units are recorded as capital transactions thereby increasing or decreasing shareholders' equity and decreasing or increasing minority interest on the consolidated balance sheets. These gains (losses) totaled (\$1) million (\$253) million and (\$272) million for the years ended December 31, 2002, 2001 and 2000, respectively, on the accompanying consolidated statements of changes in shareholders' equity. Operating losses are allocated to the minority owners based on their ownership percentage, thereby reducing the Company's net loss.

Loss per Common Share

Basic loss per common share is computed by dividing the net loss applicable to common stock by 294,440,261 shares, 269,594,386 shares and 225,697,775 shares for the years ended December 31, 2002, 2001 and 2000, representing the weighted-average common shares outstanding during the respective periods. Diluted loss per common share equals basic loss per common share for the periods presented, as the effect of stock options is antidilutive because the Company incurred net losses. All membership units of Charter Holdco are exchangeable on a one-for-one basis into common stock of Charter at the option of the holders. Should the holders exchange units for shares, the effect would not be dilutive.

Segments

SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information," established standards for reporting information about operating segments in annual financial statements and in interim financial reports issued to shareholders. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated on a regular basis by the chief operating decision maker, or decision making group, in deciding how to allocate resources to an individual segment and in assessing performance of the segment.

The Company's operations are managed on the basis of distinct geographic regional and divisional operating segments. The Company has evaluated the criteria for aggregation of the geographic operating segments under paragraph 17 of SFAS No. 131 and believes it meets each of the respective criteria set forth. The Company delivers similar products and services within each of its geographic divisional operations. Each geographic and divisional service area utilizes similar means for delivering the programming of the Company's services; have similarity in the type or class of customer receiving the products and services; distributes the Company's services over a unified network; and operates within a consistent regulatory environment. In addition, each of the geographic regional and divisional operating segments has similar economic characteristics. Accordingly, management has determined that the Company has one reportable segment, broadband services.

5. Acquisitions

On February 28, 2002, CC Systems, LLC, a subsidiary of the Company, and High Speed Access Corp. (HSA) closed the Company's acquisition from HSA of the contracts and associated assets, and assumed related liabilities,

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that served certain of the Company's high-speed data customers. At closing, the Company paid \$78 million in cash and delivered 37,000 share of HSA's Series D convertible preferred stock and all the warrants to buy HSA common stock owned by the Company. An additional \$2 million of purchase price was retained to secure indemnity claims. The purchase price has been allocated to assets acquired and liabilities assumed based on fair values as determined in the fourth quarter of 2002 by a third-party valuation expert, including \$8 million assigned to intangible assets and amortized over an average useful life of three years and \$54 million assigned to goodwill. The finalization of the purchase price did not have a material effect on amortization expense previously reported. During the period from 1997 to 2000, certain subsidiaries of the Company entered into Internet-access related service agreements with HSA, and both Vulcan Ventures and certain of the Company's subsidiaries made equity investments in HSA. (See Note 23 for additional information).

In April 2002, Interlink Communications Partners, LLC, Rifkin Acquisition Partners, LLC and Charter Communications Entertainment I, LLC each an indirect, wholly-owned subsidiary of Charter Holdings, completed the purchase of certain assets of Enstar Income Program II-2, L.P., Enstar Income Program IV-3, L.P., Enstar Income/Growth Program Six-A, L.P., Enstar Cable of Macoupin County and Enstar IV/PBD Systems Venture, serving in the aggregate approximately 21,600 (unaudited) customers, for a total cash purchase price of \$48 million. In September 2002, Charter Communications Entertainment I, LLC purchased all of Enstar Income Program II-1, L.P.'s Illinois cable television systems, serving approximately 6,400 (unaudited) customers, for a cash purchase price of \$15 million. Enstar Communications Corporation, a direct subsidiary of Charter Holdco, is a general partner of the Enstar limited partnerships but does not exercise control over them. The purchase prices were allocated to assets acquired based on fair values, including \$41 million assigned to franchises and \$4 million assigned to customer relationships amortized over a useful life of three years.

During the second and third quarters in 2001, the Company acquired cable systems in two separate transactions. In connection with the acquisitions, the Company paid aggregate cash consideration of \$1.8 billion, transferred a cable system valued at \$25 million, issued 505,664 shares of Charter Series A Convertible Redeemable Preferred Stock valued at \$51 million, and in the first quarter of 2003 issued 39,595 additional shares of Series A Convertible Redeemable Preferred Stock to certain sellers subject to certain holdback provisions of the acquisition agreement valued at \$4 million. The purchase prices were allocated to assets acquired and liabilities assumed based on fair values, including amounts assigned to franchises of \$1.5 billion.

During 2000, the Company acquired cable systems in five separate transactions for an aggregate purchase price of \$1.2 billion, net of cash acquired, excluding debt assumed of \$963 million. In connection with the acquisitions, Charter issued shares of Class A common stock valued at approximately \$178 million, and Charter Holdco and an indirect subsidiary of Charter Holdco issued equity interests totaling \$385 million and \$629 million, respectively. The purchase prices were allocated to assets and liabilities assumed based on relative fair values, including amounts assigned to franchises of \$3.3 billion.

The transactions described above were accounted for using the purchase method of accounting, and, accordingly, the results of operations of the acquired assets and assumed liabilities have been included in the consolidated financial statements from their respective dates of acquisition. The purchase prices were allocated to assets acquired and liabilities assumed based on fair values.

The summarized operating results of the Company that follow are presented on a pro forma basis as if the following had occurred on January 1, 2000: all acquisitions and dispositions completed during 2000 and 2001; the issuance of Charter Holdings senior notes and senior discount notes in January 2002 and 2001; the issuance of Charter Holdings senior notes and senior discount notes in May 2001; and the issuance of and sale by Charter of convertible senior notes and Class A common stock in May 2001. Adjustments have been made to give effect to amortization of franchises acquired prior to July 1, 2001, interest expense, minority interest, and certain other adjustments. Pro forma results for the year ended December 31, 2002 would not differ significantly from historical results.

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	Year Ended December 31,	
	2001	2000
	(in millions, except per share data)	
Revenues	\$ 3,969	\$ 3,501
Loss from operations	(1,200)	(1,121)
Loss before minority interest	(2,727)	(2,426)
Net loss	(1,251)	(1,134)
Loss per common share, basic and diluted	(4.64)	(5.02)

The unaudited pro forma financial information has been presented for comparative purposes and does not purport to be indicative of the consolidated results of operations had these transactions been completed as of the assumed date or which may be obtained in the future.

6. Allowance for Doubtful Accounts

Activity in the allowance for doubtful accounts is summarized as follows for the years presented (in millions):

	Year Ended December 31,		
	2002	2001	2000
Balance, beginning of year	\$ 33	\$ 12	\$ 11
Acquisitions of cable systems	—	1	1
Charged to expense	108	95	46
Uncollected balances written off, net of recoveries	(122)	(75)	(46)
Balance, end of year	\$ 19	\$ 33	\$ 12

7. Property, Plant and Equipment

Property, plant and equipment consists of the following as of December 31, 2002, 2001 and 2000 (in millions):

	2002	2001	2000
Cable distribution systems	\$ 8,950	\$ 7,877	\$ 5,289
Land, buildings and leasehold improvements	580	506	282
Vehicles and equipment	783	459	408
	<u>10,313</u>	<u>8,842</u>	<u>5,979</u>
Less: accumulated depreciation	<u>(2,634)</u>	<u>(1,928)</u>	<u>(1,150)</u>
	<u>\$ 7,679</u>	<u>\$ 6,914</u>	<u>\$ 4,829</u>

The Company periodically evaluates the estimated useful lives used to depreciate its assets and the estimated amount of assets that will be abandoned or have minimal use in the future. A significant change in assumptions about the extent or timing of future asset retirements, or in the Company's upgrade program, could materially affect future depreciation expense.

For the years ended December 31, 2002, 2001 and 2000, depreciation expense was \$1.4 billion, \$1.2 billion, and \$1.0 billion, respectively.

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8. Franchises and Goodwill

On January 1, 2002, the Company adopted SFAS No. 142, which eliminates the amortization of indefinite lived intangible assets. Accordingly beginning January 1, 2002, all franchises that qualify for indefinite life treatment under SFAS No. 142 are no longer amortized against earnings but instead will be tested for impairment annually, or more frequently as warranted by events or changes in circumstances. During the first quarter of 2002, the Company had an independent appraiser perform valuations of its franchises as of January 1, 2002. Based on the guidance prescribed in Emerging Issues Task Force (EITF) Issue No. 02-7, *Unit of Accounting for Testing of Impairment of Indefinite-Lived Intangible Assets*, franchises were aggregated into essentially inseparable asset groups to conduct the valuations. The asset groups generally represent geographic clusters of the Company's cable systems, which management believes represents the highest and best use of those assets. Fair value was determined based on estimated discounted future cash flows using reasonable and appropriate assumptions that are consistent with internal forecasts. As a result, the Company determined that franchises were impaired and recorded the cumulative effect of a change in accounting principle of \$266 million (approximately \$572 million before minority interest effects). The effect of adoption was to increase net loss and loss per share by \$266 million and \$0.90, respectively. As required by SFAS No. 142, the standard has not been retroactively applied to the results for the period prior to adoption.

The Company performed its annual impairment assessment on October 1, 2002 using an independent third-party appraiser and following the guidance of EITF Issue 02-17, *Recognition of Customer Relationship Intangible Assets Acquired in a Business Combination*, which was issued in October 2002 and requires the consideration of assumptions that marketplace participants would consider, such as expectations of future contract renewals and other benefits related to the intangible asset. Revised earnings forecasts and the methodology required by SFAS No. 142 which excludes certain intangibles led to recognition of a \$4.6 billion impairment in the fourth quarter of 2002.

The independent third-party appraiser's valuation as of October 1, 2002 yielded an enterprise value of approximately \$25 billion, which included \$3 billion assigned to customer relationships. SFAS No. 142 does not permit the recognition of the customer relationship asset not previously recognized. Accordingly, the analysis of the impairment could not include approximately \$373 million and \$2.9 billion attributable to customer relationship values as of January 1, 2002 and October 1, 2002, respectively.

In determining whether its franchises have an indefinite life, the Company considered the exclusivity of the franchise, its expected costs of franchise renewals, and the technological state of the associated cable systems with a view to whether or not the Company is in compliance with any technology upgrading requirements. Certain franchises did not qualify for indefinite-life treatment due to technological or operational factors that limit their lives. These franchise costs will be amortized on a straight-line basis over 10 years.

The effect of the adoption of SFAS No. 142 as of December 31, 2002 and 2001 is presented in the following table (in millions):

	December 31,								
	2002			2001			2000		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Indefinite-lived intangible assets:									
Franchises with indefinite lives	\$17,076	\$ 3,428	\$13,648	\$22,255	\$ 3,428	\$18,827	\$20,742	\$ 2,000	\$18,742
Goodwill	54	—	54	—	—	—	—	—	—
	<u>\$17,130</u>	<u>\$ 3,428</u>	<u>\$13,702</u>	<u>\$22,255</u>	<u>\$ 3,428</u>	<u>\$18,827</u>	<u>\$20,742</u>	<u>\$ 2,000</u>	<u>\$18,742</u>
Finite-lived intangible assets:									
Franchises with finite lives	\$ 103	\$ 24	\$ 79	\$ 99	\$ 15	\$ 84	\$ 99	\$ 6	\$ 93

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Franchise amortization expense for the year ended December 31, 2002 was \$9 million, which represents the amortization relating to franchises that did not qualify for indefinite-life treatment under SFAS No. 142, including costs associated with franchise renewals. For each of the next five years, amortization expense relating to these franchises is expected to be approximately \$8 million. Franchise amortization expense for the years ended December 31, 2001 and 2000 was \$1.4 billion and \$1.4 billion, respectively.

As required by SFAS No. 142, the standard has not been retroactively applied to the results for the period prior to adoption. A reconciliation of net loss for the year ended December 31, 2002, 2001 and 2000, as if SFAS No. 142 had been adopted as of January 1, 2000, is presented below (in millions):

	Year ended December 31,		
	2002	2001	2000
NET LOSS:			
Reported net loss applicable to common stock	\$(2,517)	\$(1,168)	\$ (858)
Add back: amortization of indefinite-lived franchises	—	1,453	1,341
Less: minority interest	—	(808)	(800)
Adjusted net loss applicable to common stock	\$(2,517)	\$ (523)	\$ (317)
BASIC AND DILUTED LOSS PER COMMON SHARE:			
Reported net loss per share	\$ (8.55)	\$ (4.33)	\$ (3.80)
Add back: amortization of indefinite-lived franchises	—	5.39	5.94
Less: minority interest	—	(3.00)	(3.54)
Adjusted net loss per share	\$ (8.55)	\$ (1.94)	\$ (1.40)

9. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of the following as of December 31, 2002, 2001 and 2000 (in millions):

	2002	2001	2000
Accounts payable	\$ 290	\$ 297	\$ 364
Capital expenditures	141	196	285
Accrued interest	243	230	193
Programming costs	237	191	173
Accrued general and administrative	126	119	72
Franchise fees	68	62	53
State sales tax	67	52	29
Other accrued expenses	233	232	174
	<u>\$1,405</u>	<u>\$1,379</u>	<u>\$1,343</u>

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10. Long-Term Debt

Long-term debt consists of the following as of December 31, 2002, 2001 and 2000 (in millions):

	2002		2001		2000	
	Face Value	Accreted Value	Face Value	Accreted Value	Face Value	Accreted Value
Long-Term Debt						
Charter Communications, Inc.:						
October and November 2000						
5.75% convertible senior notes due 2005	\$ 750	\$ 750	\$ 750	\$ 750	\$ 750	\$ 750
May 2001						
4.75% convertible senior notes due 2006	633	633	633	633	—	—
Charter Holdings:						
March 1999						
8.250% senior notes due 2007	600	599	600	599	600	599
8.625% senior notes due 2009	1,500	1,497	1,500	1,497	1,500	1,496
9.920% senior discount notes due 2011	1,475	1,307	1,475	1,187	1,475	1,077
January 2000						
10.000% senior notes due 2009	675	675	675	675	675	675
10.250% senior notes due 2010	325	325	325	325	325	325
11.750% senior discount notes due 2010	532	421	532	376	532	335
January 2001						
10.750% senior notes due 2009	900	900	900	899	—	—
11.125% senior notes due 2011	500	500	500	500	—	—
13.500% senior discount notes due 2011	675	454	675	398	—	—
May 2001						
9.625% senior notes due 2009	350	350	350	350	—	—
10.000% senior notes due 2011	575	575	575	575	—	—
11.750% senior discount notes due 2011	1,018	693	1,018	618	—	—
January 2002						
9.625% senior notes due 2009	350	348	—	—	—	—
10.000% senior notes due 2011	300	298	—	—	—	—
12.125% senior discount notes due 2012	450	280	—	—	—	—
Senior bridge loan facility	—	—	—	—	273	273
Renaissance:						
10.00% senior discount notes due 2008	114	113	114	104	114	95
CC V Holdings:						
11.875% senior discount notes due 2008	180	163	180	146	180	132
Other long-term debt	1	1	1	1	2	2
Credit Facilities						
Charter Operating	4,542	4,542	4,145	4,145	4,432	4,432
CC Michigan, LLC and CC New England, LLC (Avalon)	—	—	—	—	213	213
CC VI	926	926	901	901	895	895
Falcon Cable	1,155	1,155	582	582	1,050	1,050
CC VIII Operating	1,166	1,166	1,082	1,082	712	712
	<u>\$19,692</u>	<u>\$18,671</u>	<u>\$17,513</u>	<u>\$16,343</u>	<u>\$13,728</u>	<u>\$13,061</u>

The accreted values presented above represent the face value of the notes less the original issue discount at the time of sale plus the accretion to the balance sheet date.

5.75% Charter Convertible Notes. In October and November 2000, the Company issued 5.75% convertible senior notes with an aggregate principal amount at maturity of \$750 million (the "5.75% Charter Convertible Notes"). The net proceeds of \$728 million were used to repay

certain amounts outstanding under the Charter Holdings 2000 senior bridge loan facility. The 5.75% Charter Convertible Notes are convertible at the option of the holder into shares of

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Class A common stock at a conversion rate of 46.3822 shares per \$1,000 principal amount of notes, which is equivalent to a price of \$21.56 per share, subject to certain adjustments. Specifically, the adjustments include anti-dilutive provisions, which cause adjustments to occur automatically based on the occurrence of specified events to provide protection rights to holders of the notes. Additionally, the conversion ratio may be adjusted by the Company when deemed appropriate. These notes are redeemable at the option of the Company at amounts decreasing from 102.3% to 100% of the principal amount plus accrued and unpaid interest beginning on October 15, 2003, to the date of redemption. Interest is payable semiannually on April 15 and October 15, beginning April 15, 2001, until maturity on October 15, 2005.

4.75% Charter Convertible Notes. In May 2001, the Company issued 4.75% convertible senior notes with an aggregate principal amount at maturity of \$633 million (the "4.75% Charter Convertible Notes"). The net proceeds of \$609 million were used to repay certain amounts outstanding under the revolving portions of the credit facilities of the Company's subsidiaries and for general corporate purposes, including capital expenditures. The 4.75% Charter Convertible Notes are convertible at the option of the holder into shares of Class A common stock at a conversion rate of 38.0952 shares per \$1,000 principal amount of notes, which is equivalent to a price of \$26.25 per share, subject to certain adjustments. Specifically, the adjustments include anti-dilutive provisions, which automatically occur based on the occurrence of specified events to provide protection rights to holders of the notes. Additionally, the conversion ratio may be adjusted by the Company when deemed appropriate. These notes are redeemable at the option of the Company at amounts decreasing from 101.9% to 100% of the principal amount, plus accrued and unpaid interest beginning on June 4, 2004, to the date of redemption. Interest is payable semiannually on December 1 and June 1, beginning December 1, 2001, until maturity on June 1, 2006.

The 5.75% Charter Convertible Notes and the 4.75% Charter Convertible Notes rank equally with any future unsubordinated and unsecured indebtedness of Charter, but are structurally subordinated to all existing and future indebtedness and other liabilities of the Company's subsidiaries. Upon a change of control, subject to certain conditions and restrictions, the Company may be required to repurchase the notes, in whole or in part, at 100% of their principal amount plus accrued interest at the repurchase date.

March 1999 Charter Holdings Notes. In March 1999, Charter Holdings and Charter Communications Holdings Capital Corporation ("Charter Capital") (collectively, the "Issuers") issued \$3.6 billion principal amount of senior notes. The March 1999 Charter Holdings notes consisted of \$600 million in aggregate principal amount of 8.250% senior notes due 2007, \$1.5 billion in aggregate principal amount of 8.625% senior note due 2009, and \$1.5 billion in aggregate principal amount at maturity of 9.920% senior discount notes due 2011. The net proceeds of approximately \$2.9 billion, combined with the borrowings under the Company's credit facilities, were used to consummate tender offers for publicly held debt of several of the Company's subsidiaries, as described below, to refinance borrowings under the Company's previous credit facilities, for working capital purposes and to finance acquisitions.

The 8.250% senior notes are not redeemable prior to maturity. Interest is payable semiannually in arrears on April 1 and October 1, beginning October 1, 1999, until maturity.

The 8.625% senior notes are redeemable at the option of the Issuers at amounts decreasing from 104.313% to 100% of par value plus accrued and unpaid interest beginning on April 1, 2004, to the date of redemption. Interest is payable semiannually in arrears on April 1 and October 1, beginning October 1, 1999, until maturity.

The 9.920% senior discount notes are redeemable at the option of the Issuers at amounts decreasing from 104.960% to 100% of accreted value beginning April 1, 2004. Thereafter, cash interest is payable semiannually in arrears on April 1 and October 1 beginning October 1, 2004, until maturity. The discount on the 9.920% senior discount notes is being accreted using the effective interest method.

January 2000 Charter Holdings Notes. In January 2000, Charter Holdings and Charter Capital issued \$1.5 billion principal amount of senior notes. The January 2000 Charter Holdings notes consisted of \$675 million in aggregate principal amount of 10.000% senior notes due 2009, \$325 million in aggregate principal amount of 10.250% senior notes due 2010, and \$532 million in aggregate principal amount at maturity of 11.750% senior discount notes due

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2010. The net proceeds of approximately \$1.25 billion were used to consummate change of control offers for certain of the Falcon, Avalon and Bresnan notes and debentures.

The 10.000% senior notes are not redeemable prior to maturity. Interest is payable semiannually on April 1 and October 1, beginning April 1, 2000 until maturity.

The 10.250% senior notes are redeemable at the option of the Issuers at amounts decreasing from 105.125% to 100% of par value plus accrued and unpaid interest, beginning on January 15, 2005, to the date of redemption. Interest is payable semiannually in arrears on January 15 and July 15, beginning on July 15, 2000, until maturity.

The 11.750% senior discount notes are redeemable at the option of the Issuers at amounts decreasing from 105.875% to 100% of accreted value beginning January 15, 2005. Interest is payable semiannually in arrears on January 15 and July 15, beginning on July 15, 2005, until maturity. The discount on the 11.750% senior discount notes is being accreted using the effective interest method.

January 2001 Charter Holdings Notes. In January 2001, Charter Holdings and Charter Capital issued \$2.1 billion in aggregate principal amount of senior notes. The January 2001 Charter Holdings notes consisted of \$900 million in aggregate principal amount of 10.750% senior notes due 2009, \$500 million in aggregate principal amount of 11.125% senior notes due 2011 and \$675 million in aggregate principal amount at maturity of 13.500% senior discount notes due 2011. The net proceeds of approximately \$1.72 billion were used to repay all remaining amounts then outstanding under the Charter Holdings 2000 senior bridge loan facility and the CC VI revolving credit facility and a portion of the amounts then outstanding under the Charter Operating and CC VII revolving credit facilities and for general corporate purposes.

The 10.750% senior notes are not redeemable prior to maturity. Interest is payable semiannually in arrears on April 1 and October 1, beginning October 1, 2001, until maturity.

The 11.125% senior notes are redeemable at the option of the Issuers at amounts decreasing from 105.563% to 100% of par value plus accrued and unpaid interest beginning on January 15, 2006, to the date of redemption. At any time prior to January 15, 2004, the Issuers may redeem up to 35% of the aggregate principal amount of the 11.125% senior notes at a redemption price of 111.125% of the principal amount under certain conditions. Interest is payable semiannually in arrears on January 15 and July 15, beginning July 15, 2001, until maturity.

The 13.500% senior discount notes are redeemable at the option of the Issuers at amounts decreasing from 106.750% to 100% of accreted value beginning January 15, 2006. At any time prior to January 15, 2004, the Issuers may redeem up to 35% of the aggregate principal amount of the 13.500% senior discount notes at a redemption price of 113.500% of the accreted value under certain conditions. Thereafter, cash interest is payable semiannually in arrears on January 15 and July 15 beginning July 15, 2006, until maturity. The discount on the 13.500% senior discount notes is being accreted using the effective interest method.

May 2001 Charter Holdings Notes. In May 2001, Charter Holdings and Charter Capital issued \$1.94 billion in aggregate principal amount of senior notes. The May 2001 Charter Holdings notes consisted of \$350 million in aggregate principal amount of 9.625% senior notes due 2009, \$575 million in aggregate principal amount of 10.000% senior notes due 2011 and \$1.0 billion in aggregate principal amount at maturity of 11.750% senior discount notes due 2011. The net proceeds of approximately \$1.47 billion were used to pay a portion of the purchase price of the AT&T transactions, repay all amounts outstanding under the Charter Operating and Falcon Cable revolving credit facilities and for general corporate purposes, including capital expenditures.

The 9.625% senior notes are not redeemable prior to maturity. Interest is payable semiannually in arrears on May 15 and November 15, beginning November 15, 2001, until maturity.

The 10.000% senior notes are redeemable at the option of the Issuers at amounts decreasing from 105.000% to 100% of par value plus accrued and unpaid interest beginning on May 15, 2006, to the date of redemption. At any time prior

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to May 15, 2004, the Issuers may redeem up to 35% of the aggregate principal amount of the 10.000% senior notes at a redemption price of 110.000% of the principal amount under certain conditions. Interest is payable semiannually in arrears on May 15 and November 15, beginning November 15, 2001, until maturity.

The 11.750% senior discount notes are redeemable at the option of the Issuers at amounts decreasing from 105.875% to 100% of accreted value beginning January 15, 2006. At any time prior to May 15, 2004, the Issuers may redeem up to 35% of the aggregate principal amount of the 11.750% senior discount notes at a redemption price of 111.750% of the accreted value under certain conditions. Thereafter, cash interest is payable semiannually in arrears on May 15 and November 15 beginning November 15, 2006, until maturity. The discount on the 11.750% senior discount notes is being accreted using the effective interest method.

January 2002 Charter Holdings Notes. In January 2002, Charter Holdings and Charter Capital, issued \$1.1 billion in aggregate principal amount at maturity of senior notes and senior discount notes. The January 2002 Charter Holdings notes consisted of \$350 million in aggregate principal amount of 9.625% senior notes due 2009, \$300 million in aggregate principal amount of 10.000% senior notes due 2011 and \$450 million in aggregate principal amount at maturity of 12.125% senior discount notes due 2012. The net proceeds of approximately \$873 million were primarily used to repay a portion of the amounts outstanding under the revolving credit facilities of the Company's subsidiaries.

The 9.625% senior notes are not redeemable prior to maturity. Interest is payable semi-annually in arrears on May 15 and November 15, beginning May 15, 2002, until maturity.

The 10.000% senior notes are redeemable at the option of the Issuers at amounts decreasing from 105.000% to 100% of par value plus accrued and unpaid interest beginning on May 15, 2006, to the date of redemption. At any time prior to May 15, 2004, the Issuers may redeem up to 35% of the aggregate principal amount of the 10.000% senior notes at a redemption price of 110.000% of the principal amount under certain conditions. Interest is payable semi-annually in arrears on May 15 and November 15, beginning May 15, 2002, until maturity.

The 12.125% senior discount notes are redeemable at the option of the Issuers at amounts decreasing from 106.063% to 100% of accreted value beginning January 15, 2007. At any time prior to January 15, 2005, the issuers may redeem up to 35% of the aggregate principal amount of the 12.125% senior discount notes at a redemption price of 112.125% of the accreted value under certain conditions. Cash interest is payable semi-annually in arrears on January 15 and July 15 beginning July 15, 2007, until maturity. The discount on the 12.125% senior discount notes is being accreted using the effective interest method.

Renaissance Notes. In connection with the acquisition of Renaissance in April 1999, the Company assumed \$163 million principal amount at maturity of 10.000% senior discount notes due 2008 of which \$49 million was repurchased in May 1999. The Renaissance notes do not require the payment of interest until April 15, 2003. From and after April 15, 2003, the Renaissance notes bear interest, payable semi-annually in cash, on April 15 and October 15, commencing on October 15, 2003. The Renaissance notes are due on April 15, 2008.

CC V Holdings Notes. Charter Holdco acquired CC V Holdings in November 1999 and assumed CC V Holdings' outstanding 11.875% senior discount notes due 2008 with an accreted value of \$123 million and \$150 million in principal amount of 9.375% senior subordinated notes due 2008. After December 1, 2003, cash interest on the CC V Holdings 11.875% notes will be payable semi-annually on June 1 and December 1 of each year, commencing June 1, 2004. In addition, a principal payment of \$66 million is due on December 1, 2003.

In January 2000, through change of control offers and purchases in the open market, the Company repurchased all of the \$150 million aggregate principal amount of the CC V Holdings 9.375% notes. Contemporaneously, the Company completed change of control offers in which it repurchased \$16 million aggregate principal amount at maturity of the 11.875% senior discount notes.

High Yield Restrictive Covenants; Limitation on Indebtedness. The indentures governing the public notes of the

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Company's subsidiaries contain certain covenants that restrict the ability of Charter Holdings, Charter Capital, the CCV notes issuers, Renaissance Media Group, and all of their restricted subsidiaries to:

- incur additional debt;
- pay dividends on equity or repurchase equity;
- grant liens;
- make investments;
- sell all or substantially all of their assets or merge with or into other companies;
- sell assets;
- enter into sale-leasebacks;
- in the case of restricted subsidiaries, create or permit to exist dividend or payment restrictions with respect to the bond issuers, guarantee their parent companies debt, or issue specified equity interests; and
- engage in certain transactions with affiliates.

Charter Operating Credit Facilities. The Charter Operating credit facilities provide for borrowings of up to \$5.2 billion and provide for four term facilities: two Term A facilities with an aggregate principal amount of \$1.11 billion that matures in September 2007, each with different amortization schedules, one beginning in June 2002 and one beginning in September 2005; and two Term B facilities with an aggregate principal amount of \$2.73 billion, of which \$1.84 billion matures in March 2008 and \$893 million matures in September 2008. The Charter Operating credit facilities also provide for two revolving credit facilities, in an aggregate amount of \$1.34 billion, which will reduce annually beginning in March 2004 and September 2005, with a maturity date in September 2007. At the option of the lenders, supplemental credit facilities in the amount of \$100 million may be available. Amounts under the Charter Operating credit facilities bear interest at the Base Rate or the Eurodollar rate, as defined, plus a margin of up to 2.75% for Eurodollar loans (4.58% to 3.13% as of December 31, 2002) and 1.75% for base rate loans. A quarterly commitment fee of between 0.25% and 0.375% per annum is payable on the unborrowed balance of the revolving credit facilities. As of December 31, 2002, outstanding borrowings were approximately \$4.5 billion and the unused total potential availability was \$633 million although financial covenants limited our availability to \$318 million as of December 31, 2002.

CC VI Operating Credit Facilities. The CC VI Operating credit facilities provide for two term facilities, one with a principal amount of \$450 million that matures May 2008 (Term A), and the other with a principal amount of \$400 million that matures November 2008 (Term B). The CC VI Operating credit facilities also provide for a \$350 million reducing revolving credit facility with a maturity date in May 2008. At the option of the lenders, supplemental credit facilities in the amount of \$300 million may be available until December 31, 2004. Amounts under the CC VI Operating credit facilities bear interest at the base rate or the Eurodollar rate, as defined, plus a margin of up to 3.0% for Eurodollar loans (4.31% to 2.62% as of December 31, 2002) and 2.0% for base rate loans. A quarterly commitment fee of between 0.250% and 0.375% per annum is payable on the unborrowed balance of the Term A facility and the revolving facility. As of December 31, 2002, outstanding borrowings were \$926 million and unused total potential availability was \$274 million although financial covenants limited our availability to \$127 million as of December 31, 2002.

Falcon Cable Credit Facilities. The Falcon Cable credit facilities provide for two term facilities, one with a principal amount of \$192 million that matures June 2007 (Term B), and the other with the principal amount of \$288 million that matures December 2007 (Term C). The Falcon Cable credit facilities also provide for a reducing revolving facility of up to approximately \$68 million (maturing in December 2006), a reducing supplemental facility of up to \$110 million (maturing in December 2007) and a second reducing revolving facility of up to \$670 million (maturing in June 2007). At the option of the lenders, supplemental credit facilities in the amount of up to \$486 million may also be available. Amounts under the Falcon Cable credit facilities bear interest at the base rate or the Eurodollar rate, as defined, plus a margin of up to 2.5% for Eurodollar loans (4.07% to 2.685% as of December 31, 2002) and up to 1.5% for base rate loans. A quarterly commitment fee of between 0.25% and 0.375% per annum is payable on the unborrowed balance of the revolving facilities. As of December 31, 2002, outstanding borrowings were \$1.2 billion and unused total potential

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availability was \$173 million, all of which would have been available based on financial covenants as of December 31, 2002.

CC VIII Operating Credit Facilities. The CC VIII Operating credit facilities provide for borrowings of up \$1.49 billion as of December 31, 2002. The CC VIII credit facilities provide for three term facilities, two Term A facilities with a reduced current aggregate principal amount of \$450 million, that continues reducing quarterly until they reach maturity in June 2007, and a Term B facility with a reduced current principal amount of \$495 million, that continues reducing quarterly until it reaches maturity in February 2008. The CC VIII Operating credit facilities also provide for two reducing revolving credit facilities, in the aggregate amount of \$547 million, which will reduce quarterly beginning in March 2002 and September 2005, respectively, with maturity dates in June 2007. At the option of the lenders, supplemental facilities in the amount of \$300 million may be available. Amounts under the CC VIII Operating credit facilities bear interest at the base rate or the Eurodollar rate, as defined, plus a margin of up to 2.75% for Eurodollar loans (4.54% to 2.89% as of December 31, 2002) and up to 1.75% for base rate loans. A quarterly commitment fee of between 0.250% and 0.375% is payable on the unborrowed balance of the revolving credit facilities. As of December 31, 2002, outstanding borrowings were \$1.2 billion, and unused total potential availability was \$326 million, all of which would have been available based on financial covenants as of December 31, 2002.

Obligations under the credit facilities of the Company's subsidiaries are guaranteed by each respective subsidiary's parent and by each of their operating subsidiaries. The obligations under the credit facilities of the Company's subsidiaries are secured by pledges of all equity interests owned by each subsidiary and its operating subsidiaries in other persons, and intercompany obligations owing to each subsidiary and/or its operating subsidiaries by their affiliates, but are not secured by the other assets of each subsidiary or its operating subsidiaries. The obligations under each subsidiary's credit facilities are also secured by pledges by the subsidiary's parent of all equity interests it holds in other persons, and intercompany obligations owing to it by its affiliates, but are not secured by the other assets of the subsidiary's parent.

Each of the credit facilities of the Company's subsidiaries contain representations and warranties, affirmative and negative covenants similar to those described above with respect to the indentures governing the public notes of the Company's subsidiaries, information requirements, events of default and financial covenants. The financial covenants, which are generally tested on a quarterly basis, measure performance against standards set for leverage, debt service coverage, and operating cash flow coverage of cash interest expense. Additionally, the credit facilities contain provisions requiring mandatory loan prepayments under specific circumstances, including when significant amounts of assets are sold and the proceeds are not promptly reinvested in assets useful in the business of the borrower. The Charter Operating credit facility also provides that in the event that any existing Charter Holdings notes or other long-term indebtedness of Charter Holdings remain outstanding on the date, which is six months prior to the scheduled final maturity, the term loans under the Charter Operating credit facility will mature and the revolving credit facilities will terminate on such date.

In the event of a default under the Company's subsidiaries' credit facilities or public notes, the subsidiaries' creditors could elect to declare all amounts borrowed, together with accrued and unpaid interest and other fees, to be due and payable. In such event, the subsidiaries' credit facilities and indentures that were so accelerated or were otherwise in default will not permit the Company's subsidiaries to distribute funds to Charter Holdco or the Company to pay interest or principal on the public notes. If the amounts outstanding under such credit facilities or public notes are accelerated, all of the subsidiaries' debt and liabilities would be payable from the subsidiaries' assets, prior to any distribution of the subsidiaries' assets to pay the interest and principal amounts on the public notes. In addition, the lenders under the Company's credit facilities could foreclose on their collateral, which includes equity interests in the Company's subsidiaries, and exercise other rights of secured creditors. In any such case, the Company might not be able to repay or make any payments on its public notes. Additionally, such a default would cause cross-default in the indentures governing the Charter Holdings notes and the convertible senior notes and would trigger the cross-default provision of the Charter Operating Credit Agreement. Any default under any of the subsidiaries' credit facilities or public notes might adversely affect the holders of the Company's public notes and the Company's growth, financial condition and results of operations and could force the Company to examine all options, including seeking the protection of the bankruptcy laws.

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Backup Credit Facility. Effective April 14, 2003, the Company entered into a commitment letter with Vulcan Inc., which is an affiliate of Paul Allen, pursuant to which Vulcan Inc. or an affiliate (the "lender") would lend initially to Charter Communications VII, LLC an aggregate amount of up to \$300 million, which amount includes a subfacility of up to \$100 million for the issuance of letters of credit. The borrower would be able to draw under the facility or have letters of credit issued, in each case within five business days of the end of each quarter ending on or prior to March 31, 2004. The loans and letters of credit could only be used to repay loans, or replace letters of credit, under the Company's operating subsidiaries' credit facilities to the extent required to comply with the leverage ratios under those credit facilities or to create cushions in excess of the minimum amount necessary to comply with such ratios. The facility would be guaranteed by the Company and certain of its subsidiaries and would be secured by a lien on the Company's corporate headquarters in St. Louis and certain corporate aircraft. The Company would be required to use its commercially reasonable efforts to form a new interim holding company (CCH II, LLC) as a subsidiary of Charter Holdings and to cause Charter Holdings to transfer to it the equity interests in Charter Communications Operating LLC, CC VI Holdings, LLC, Charter Communications VII, LLC and CC V Holdings, LLC, which transfer the Company refers to as the equity contribution. The equity interests to be transferred in the equity contribution have been pledged as security for the loans under the Charter Operating credit facility. The Company would also be required to use its commercially reasonable efforts to obtain the consent of the lenders under the Charter Operating credit facility to the grant to the lender of a second priority lien on the equity interests transferred to CCH II, LLC. Upon the equity contribution, CCH II, LLC would become the borrower under the facility.

In addition to the liens on our corporate headquarters, on the corporate aircraft and on the equity interests transferred pursuant to the equity contribution, the facility would also be secured on a *pari passu* basis by liens or security interests granted on any assets or properties (other than assets or properties of CCH II, LLC, which shall secure the facility on a first priority basis, subject to the prior lien in favor of the lenders under Charter Operating credit facility on the equity interests transferred pursuant to the equity contribution) to secure any indebtedness of us or any of our subsidiaries (other than the operating company credit facilities and other ordinary and customary exceptions to be determined).

The interest rate on the loans would be initially 13% per annum, reducing to 12% per annum at such time as CCH II, LLC became the borrower under the facility. If the borrower were unable to receive funds from its operating subsidiaries to pay such interest, the borrower would be able to pay interest by delivering additional notes to the lender in the amount of the accrued interest calculated at the rate of 15% per annum, reducing to 14% per annum for any issuance after CCH II, LLC became the borrower under the facility. Such additional notes would bear interest at the same rate as, and otherwise be on the same terms as, the notes issued to represent the original loans under the facility. Upon the occurrence of an event of default, the interest rate would be increased by 2% per annum over the interest rate otherwise applicable.

If letters of credit are issued pursuant to the facility, the borrower would pay a letter of credit fee of 8% per annum of the face amount of the letter of credit.

The borrower would pay the lender a facility fee of 1.5% of the amount of the facility, payable over three years (with 0.5% being earned upon execution of the commitment letter and 1.0% being earned upon execution of the definitive documentation). In addition to the facility fee, the borrower would pay a commitment fee on the undrawn portion of the facility in the amount of 0.5% per annum commencing upon execution of the definitive documentation.

The borrower would have the right to terminate the facility at any time that no loans or letters of credit are outstanding, although any fees earned prior to termination would remain payable. No amortization payments would be required prior to maturity. The facility would mature on November 12, 2009, provided that at such time as CCH II, LLC became the borrower under the facility the maturity date would become March 1, 2007. The loan may not be prepaid prior to March 31, 2004, but the borrower would have the right to make prepayments at any time after March 31, 2004, without the payment of any premium or penalty. The borrower would be required to offer to purchase outstanding notes evidencing the loans under the facility with the proceeds of certain asset sales and debt issuances.

The definitive documentation would contain customary representations, covenants, events of default and indemnification provisions including total leverage covenant and an interest coverage covenant, in each case modeled after the comparable covenants in the operating company credit facilities, with appropriate adjustments to be determined.

The facility is subject to the negotiation and execution of definitive documentation by June 30, 2003. If the parties have not executed the definitive documentation by that date, the facility will terminate. Once the documentation has been executed, the borrower's ability to draw on the facility would be subject to certain conditions, such as the use of other available funds for covenant compliance purposes, evidence of compliance with financial covenants, accuracy of representations and warranties, no material adverse change having occurred, there being no default under other credit facilities and indentures, and receipt of financial statements. Although the Company believes that it will be able to satisfy those conditions, there can be no assurance that the Company will be able to do so or that if

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the Company fails to do so it will be able to negotiate waivers of such conditions.

Based upon outstanding indebtedness as of December 31, 2002, the amortization of term loans, scheduled reductions in available borrowings of the revolving credit facilities, and the maturity dates for all senior and subordinated notes and debentures, aggregate future principal payments on the total borrowings under all debt agreements as of December 31, 2002, are as follows:

Year	Amount
	(in millions)
2003	\$ 236
2004	193
2005	1,210
2006	1,991
2007	2,647
Thereafter	13,415
	<u>\$19,692</u>

For the amounts of debt scheduled to mature during 2003, it is management's intent to fund the repayments from borrowings on the Company's revolving credit facility. The accompanying balance sheet reflects this intent by presenting all debt balances as long-term while the table above reflects actual debt maturities as of the stated date.

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11. Minority Interest and Equity Interests of Charter Holdco

The Company is a holding company whose primary asset is a controlling equity interest in Charter Holdco, the indirect owner of the Company's cable systems. Minority interest on the Company's consolidated balance sheets represents the ownership percentages of Charter Holdco not owned by the Company, or 53.5% of total members' equity of Charter Holdco, plus \$668 million, \$655 million and \$641 million of preferred membership interests in CC VIII, LLC (CC VIII), an indirect subsidiary of Charter Holdco, as of December 31, 2002, 2001 and 2000 respectively. As more fully described below, this preferred interest arises from the approximately \$629 million of preferred units issued by CC VIII in connection with the Bresnan acquisition in February, 2000. Members' equity of Charter Holdco was \$662 million, \$7.0 billion and \$8.4 billion as of December 31, 2002, 2001 and 2000, respectively. Gains and losses arising from the issuance by Charter Holdco of its membership units are recorded as capital transactions, thereby increasing or decreasing shareholders' equity and decreasing or increasing minority interest on the accompanying consolidated balance sheets. Minority interest was 53.5%, 53.5% and 59.2% as of December 31, 2002, 2001 and 2000, respectively. Changes to minority interest consist of the following for the periods presented (in millions):

	Minority Interest
Balance, December 31, 1999	\$ 5,381
Equity of subsidiaries issued to Bresnan sellers	1,014
Equity of subsidiaries classified as redeemable securities	(1,095)
Minority interest in loss of a subsidiary	(1,282)
Minority interest in income tax benefit	15
Option compensation expense, net	22
Impact of issuance of equity by Charter Holdco	445
Redeemable securities reclassified as minority interest	49
Other	(3)
	<hr/>
Balance, December 31, 2000	4,546
Equity reclassified from redeemable securities (26,539,746 shares of Class A common stock)	1,096
Minority interest in loss of a subsidiary	(1,464)
Minority interest in change in accounting principle	(14)
Minority interest in income tax benefit	16
Option compensation expense, net	(2)
Changes in fair value of interest rate agreements	(22)
Gain on issuance of equity by Charter Holdco	253
	<hr/>
Balance, December 31, 2001	4,409
Minority interest in loss of a subsidiary	(3,179)
Minority interest in change in accounting principle	(306)
Minority interest in income tax benefit	132
Option compensation expense, net	3
Changes in fair value of interest rate agreements	(35)
Gain on issuance of equity by Charter Holdco	1
	<hr/>
Balance, December 31, 2002	\$ 1,025

In February 2000, Charter Holdco issued 15 million membership units for approximately \$25 per share, or \$385 million, primarily to the Comcast sellers as partial consideration for the Bresnan acquisition thereby decreasing Charter's ownership percentage of Charter Holdco to 40% from 41% immediately preceding the transaction. These transactions resulted in a loss on issuance of equity by Charter Holdco of \$51 million. In September 2000, Charter Holdco issued 12 million membership units to Charter for approximately \$15 per share in exchange for \$178 million of equity interest of two businesses acquired by Charter and contributed to Charter Holdco thereby increasing Charter's ownership percentage of Charter Holdco to 41% from 40% immediately preceding the transaction. This

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transaction resulted in a loss on issuance of equity by Charter Holdco of \$5 million. In May 2001, Charter Holdco issued 60 million membership units to Charter for approximately \$20 per share in exchange for \$1.2 billion of proceeds from issuance of Charter common stock thereby increasing Charter's ownership percentage of Charter Holdco to 46% from 41% immediately preceding the transaction. This transaction resulted in a gain on issuance of equity by Charter Holdco of \$236 million.

As part of the Bresnan acquisition in February 2000, CC VIII, an indirect limited liability company subsidiary of Charter, issued Class A Preferred Membership Interests (collectively, the CC VIII Interest) with a value and an initial capital account of approximately \$630 million to certain sellers affiliated with AT&T Broadband, now owned by Comcast Corporation (the Comcast Sellers). The CC VIII Interest is entitled to a 2% priority return on its initial capital amount and such priority return is entitled to preferential distributions from available cash and upon liquidation of CC VIII. The CC VIII Interest generally does not share in the profits and losses of CC VIII at present. The Comcast Sellers have the right at their option to exchange the CC VIII Interest for shares of Charter Class A common stock. Charter does not have the right to force such an exchange. In connection with the Bresnan acquisition, Mr. Allen granted the Comcast Sellers the right to sell to Mr. Allen the CC VIII Interest (or any Charter Class A common stock that the Comcast Sellers would receive if they exercised their exchange right) for approximately \$630 million plus 4.5% interest annually from February 2000 (the Comcast Put Right). In April 2002, in accordance with such put agreement, the Comcast Sellers notified Mr. Allen of their exercise of the Comcast Put Right in full, and the parties agreed to consummate the sale in April 2003, although the parties also agreed to negotiate in good faith possible alternatives to the closing. On April 9, 2003, the parties agreed to extend the closing for up to thirty days. If the sale to Mr. Allen is consummated, Mr. Allen would become the holder of the CC VIII Interest (or, if previously exchanged by the current holders, any Charter Class A common stock issued to the current holders upon such exchange). If the CC VIII Interest is transferred to Mr. Allen, then, subject to the matters referenced in the next paragraph, Mr. Allen generally thereafter would be allocated his pro rata share (based on number of membership interests outstanding) of profits or losses of CC VIII. In the event of a liquidation of CC VIII, Mr. Allen would not be entitled to any priority distributions (except with respect to the 2% priority return, as to which such priority would continue), and Mr. Allen's share of any remaining distributions in liquidation would be equal to the initial capital account of the Comcast Sellers of approximately \$630 million, increased or decreased by Mr. Allen's pro rata share of CC VIII's profits or losses (as computed for capital account purposes) after the date of the transfer of the CC VIII Interest to Mr. Allen.

An issue has arisen as to whether the documentation for the Bresnan transaction was correct and complete with regard to the ultimate ownership of the CC VIII Interest following consummation of the Comcast Put Right. Charter's Board of Directors has formed a Special Committee comprised of Messrs. Tory, Wangberg and Nelson to investigate and take any other appropriate action on behalf of the Company with respect to this matter. Specifically, the Special Committee is considering whether it should be the position of Charter that Mr. Allen should be required to contribute the CC VIII Interest to Charter Holdco in exchange for Charter Holdco membership units, immediately after his acquisition of the CC VIII Interest upon consummation of the Comcast Put Right. To the extent it is ultimately determined that Mr. Allen must contribute the CC VIII Interest to Charter Holdco following consummation of the Comcast Put Right, the Special Committee may also consider what additional steps, if any, should be taken with respect to the further disposition of the CC VIII Interest by Charter Holdco. If necessary, following the completion of the Special Committee's investigation of the facts and circumstances relating to this matter, the Special Committee and Mr. Allen have agreed to a non-binding mediation process to resolve any dispute relating to this matter as soon as practicable, but without any prejudice to any rights of the parties if such dispute is not resolved as part of the mediation.

12. Redeemable Securities

In connection with several acquisitions in 1999 and 2000, sellers who acquired Charter Holdco membership units, additional equity interests in a subsidiary of Charter Holdings or shares of Class A common stock in Charter's initial public offering received potential rescission rights against Charter and Charter Holdco arising out of possible violations of Section 5 of the Securities Act of 1933, as amended, in connection with the offers and sales of these equity interests. Accordingly, the maximum potential cash obligation related to the rescission rights, estimated at

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\$1.1 billion as of December 31, 2000, has been excluded from shareholders' equity or minority interest and classified as redeemable securities on the consolidated balance sheet.

In February 2001, all remaining rescission rights associated with the redeemable securities expired without the security holders requesting repurchase of their securities. Accordingly, the Company reclassified the respective amounts to minority interest and shareholders' equity, as applicable.

13. Preferred Stock — Redeemable

On August 31, 2001, in connection with its acquisition of Cable USA, Inc. and certain cable system assets from affiliates of Cable USA, Inc., the Company issued 505,664 shares of Series A Convertible Redeemable Preferred Stock (the Preferred Stock) valued at and with a liquidation preference of \$51 million. Holders of the Preferred Stock have no voting rights but are entitled to receive cumulative cash dividends at an annual rate of 5.75%, payable quarterly. If for any reason Charter fails to pay the dividends on the Preferred Stock on a timely basis, the dividend rate on each share increases to an annual rate of 7.75% until the payment is made. The Preferred Stock is redeemable by Charter at its option on or after August 31, 2004 and must be redeemed by Charter at any time upon a change of control, or if not previously redeemed or converted, on August 31, 2008. The Preferred Stock is convertible, in whole or in part, at the option of the holders from April 1, 2002 through August 31, 2008, into shares of common stock at an initial conversion rate equal to a conversion price of \$24.71 per share of common stock, subject to certain customary adjustments. The redemption price per share of Preferred Stock is the Liquidation Preference of \$100, subject to certain customary adjustments. In the first quarter of 2003, the Company issued 39,595 additional shares of preferred stock valued at and with liquidation preference of \$4 million.

14. Comprehensive Loss

Certain marketable equity securities are classified as available-for-sale and reported at market value with unrealized gains and losses recorded as accumulated other comprehensive loss on the accompanying consolidated balance sheets. The Company reports changes in the fair value of interest rate agreements designated as hedging instruments of the variability of cash flows associated with floating-rate debt obligations, that meet the effectiveness criteria of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," in accumulated other comprehensive loss. Comprehensive loss for the years ended December 31, 2002, 2001 and 2000 was \$2.5 billion, \$1.2 billion and \$0.9 billion respectively.

15. Accounting for Derivative Instruments and Hedging Activities

The Company uses interest rate risk management derivative instruments, such as interest rate swap agreements and interest rate collar agreements (collectively referred to herein as interest rate agreements) as required under the terms of its credit facilities. The Company's policy is to manage interest costs using a mix of fixed and variable rate debt. Using interest rate swap agreements, the Company agrees to exchange, at specified intervals through 2007, the difference between fixed and variable interest amounts calculated by reference to an agreed-upon notional principal amount. Interest rate collar agreements are used to limit the Company's exposure to and benefits from interest rate fluctuations on variable rate debt to within a certain range of rates.

Effective January 1, 2001, the Company adopted SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities." Interest rate agreements are recorded in the consolidated balance sheet at December 31, 2002 and 2001 as either an asset or liability measured at fair value. In connection with the adoption of SFAS No. 133, the Company recorded a loss of \$10 million (approximately \$24 million before minority interest effects) as the cumulative effect of change in accounting principle. The effect of adoption was to increase net loss and loss per share by \$10 million and \$0.04 per share, respectively, for the year ended December 31, 2001.

The Company has certain interest rate derivative instruments that have been designated as cash flow hedging instruments. Such instruments are those that effectively convert variable interest payments on certain debt instruments into fixed payments. For qualifying hedges, SFAS No. 133 allows derivative gains and losses to offset

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related results on hedged items in the consolidated statement of operations. The Company has formally documented, designated and assessed the effectiveness of transactions that receive hedge accounting. For the years ended December 31, 2002 and 2001, other expense includes \$14 million and \$2 million, respectively, of losses, which represent cash flow hedge ineffectiveness on interest rate hedge agreements arising from differences between the critical terms of the agreements and the related hedged obligations. Changes in the fair value of interest rate agreements designated as hedging instruments of the variability of cash flows associated with floating-rate debt obligations are reported in accumulated other comprehensive loss. For the year ended December 31, 2002 and 2001, a loss of \$65 million and \$39 million, respectively, related to derivative instruments designated as cash flow hedges was recorded in accumulated other comprehensive loss and minority interest. The amounts are subsequently reclassified into interest expense as a yield adjustment in the same period in which the related interest on the floating-rate debt obligations affects earnings (losses).

Certain interest rate derivative instruments are not designated as hedges as they do not meet the effectiveness criteria specified by SFAS No. 133. However, management believes such instruments are closely correlated with the respective debt, thus managing associated risk. Interest rate derivative instruments not designated as hedges are marked to fair value with the impact recorded as loss on interest rate agreements. For the years ended December 31, 2002 and 2001, the Company recorded other expense of \$101 million and \$48 million, respectively, for interest rate derivative instruments not designated as hedges.

As of December 31, 2002, 2001 and 2000, the Company had outstanding \$3.4 billion, \$3.3 billion and \$1.9 billion and \$520 million, \$520 million and \$520 million, respectively, in notional amounts of interest rate swaps and collars, respectively. Additionally, at December 31, 2000, the Company had \$15 million of interest rate caps. The notional amounts of interest rate instruments do not represent amounts exchanged by the parties and, thus, are not a measure of exposure to credit loss. The amounts exchanged are determined by reference to the notional amount and the other terms of the contracts.

16. Fair Value of Financial Instruments

The Company has estimated the fair value of its financial instruments as of December 31, 2002, 2001 and 2000 using available market information or other appropriate valuation methodologies. Considerable judgment, however, is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented in the accompanying consolidated financial statements are not necessarily indicative of the amounts the Company would realize in a current market exchange.

The carrying amounts of cash, receivables, payables and other current assets and liabilities approximate fair value because of the short maturity of those instruments. The Company is exposed to market price risk volatility with respect to investments in publicly traded and privately held entities.

The fair value of interest rate agreements represents the estimated amount the Company would receive or pay upon termination of the agreements. Management believes that the sellers of the interest rate agreements will be able to meet their obligations under the agreements. In addition, some of the interest rate agreements are with certain of the participating banks under the Company's credit facilities, thereby reducing the exposure to credit loss. The Company has policies regarding the financial stability and credit standing of major counterparties. Nonperformance by the counterparties is not anticipated nor would it have a material adverse effect on the Company's consolidated financial position or results of operations.

The estimated fair value of the Company's notes, credit facilities and interest rate agreements at December 31, 2002, 2001 and 2000 are based on quoted market prices or a discounted cash flow analysis using the Company's incremental borrowing rate for similar types of borrowing arrangements and dealer quotations.

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A summary of the carrying value and fair value of the Company's debt and related interest rate agreements at December 31, 2002, 2001 and 2000 is as follows (in millions):

	2002		2001		2000	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
Debt						
Charter convertible notes	\$1,383	\$ 295	\$1,383	\$1,327	\$ 750	\$ 877
Charter Holdings debt	9,222	3,867	7,999	7,964	4,780	4,426
Credit facilities	7,789	6,367	6,710	6,710	7,302	7,302
Other	277	212	251	237	229	195
Interest Rate Agreements						
Assets (Liabilities)						
Swaps	(258)	(258)	(80)	(80)	(1)	5
Collars	(34)	(34)	(34)	(34)	—	11

The weighted average interest pay rate for the Company's interest rate swap agreements was 7.40%, 7.22% and 7.61 % at December 31, 2002, 2001 and 2000, respectively. The Company's interest rate collar agreements are structured so that if LIBOR falls below 5.3%, the Company pays 6.7%. If the LIBOR rate is between 5.3% and 8.0%, the Company pays LIBOR. The LIBOR rate is capped at 8.0% if LIBOR is between 8.0% and 9.9%. If the LIBOR rate rises above 9.9%, the cap is removed.

17. Revenues

Revenues consist of the following for the years presented (in millions):

	Year Ended December 31,		
	2002	2001	2000
Analog video	\$3,083	\$2,768	\$2,503
Digital video	457	307	89
High-speed data	340	155	55
Advertising sales	302	197	142
Other	384	380	352
	<u>\$4,566</u>	<u>\$3,807</u>	<u>\$3,141</u>

18. Operating Expenses

Operating expenses consist of the following for the years presented (in millions):

	Year Ended December 31,		
	2002	2001	2000
Analog video programming	\$1,012	\$ 874	\$ 741
Digital video programming	159	103	34
High-speed data	112	65	25
Advertising sales	87	64	57
Service	434	374	328
	<u>\$1,804</u>	<u>\$1,480</u>	<u>\$1,185</u>

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19. Selling, General and Administrative Expenses

Selling, general and administrative expenses consist of the following for the years presented (in millions):

	Year Ended December 31,		
	2002	2001	2000
General and administrative	\$813	\$696	\$505
Marketing	153	136	103
	<u>\$966</u>	<u>\$832</u>	<u>\$608</u>

20. Option Plans

The Company grants stock options, restricted stock and other incentive compensation pursuant to two plans — the 1999 Option Plan of Charter Holdco (the “1999 Plan”) and the 2001 Stock Incentive Plan of Charter (the “2001 Plan”). The 1999 Plan provided for the grant of options to purchase membership units in Charter Holdco to current and prospective employees and consultants of Charter Holdco and its affiliates and current and prospective non-employee directors of Charter. Options granted generally vest over five years from the grant date, with 25% vesting 15 months after the anniversary of the grant date and ratably thereafter. Options not exercised accumulate and are exercisable, in whole or in part, in any subsequent period, but not later than ten years from the date of grant. Membership units received upon exercise of the options are automatically exchanged into Class A common stock of Charter on a one-for-one basis.

The 2001 Plan provides for the grant of non-qualified stock options, stock appreciation rights, dividend equivalent rights, performance units and performance shares, share awards, phantom stock and/or shares of restricted stock (not to exceed 3,000,000), as each term is defined in the 2001 Plan. Employees, officers, consultants and directors of the Company and its subsidiaries and affiliates are eligible to receive grants under the 2001 Plan. Options granted generally vest over four years from the grant date, with 25% vesting on the anniversary of the grant date and ratably thereafter. Generally, options expire 10 years from the grant date.

Together, the plans allow for the issuance of up to an aggregate of 90,000,000 shares of Charter Class A common stock (or units convertible into Charter Class A common stock). The aggregate shares available reflects an October 2002 amendment to the 2001 Plan approved by the board of directors of Charter to increase available shares by 30,000,000 shares. However, the amendment is subject to shareholder approval and any grants with respect to these additional shares will not be exercisable unless and until the Company’s shareholders approve the amendment. In 2001, any shares covered by options that terminated under the 1999 Plan were transferred to the 2001 Plan, and no new options were granted under the 1999 Plan. During September and October 2001, in connection with new employment agreements and related option agreements entered into by the Company, certain executives of the Company were awarded an aggregate of 256,000 shares of restricted Class A common stock, of which 26,250 shares were cancelled as of December 31, 2002. In January and February of 2003, an additional 92,813 shares were canceled. The shares vested 25% upon grant, with the remaining shares vesting monthly over a three-year period beginning after the first anniversary of the date of grant. As of December 31, 2002, deferred compensation remaining to be recognized in future periods totaled \$1 million.

In September 2001, when the Company’s former President and Chief Executive Officer terminated his employment, as part of his separation agreement he waived his right to an option to purchase approximately seven million Charter Holdco membership units, of which approximately 5 million had vested. Accordingly, the Company recorded a reversal of compensation expense previously recorded on unvested options of \$22 million.

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A summary of the activity for the Company's stock options, excluding granted shares of restricted Class A common stock, for the years ended December 31, 2002, 2001 and 2000, is as follows (options in thousands, except per share data):

	2002		2001		2000	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Options outstanding, beginning of period	46,558	\$17.10	28,482	\$19.24	20,758	\$19.79
Granted	13,122	4.88	29,395	16.01	10,247	18.06
Exercised	—	—	(278)	19.23	(17)	20.00
Cancelled	(6,048)	16.32	(11,041)	19.59	(2,506)	18.98
Options outstanding, end of period	53,632	\$14.22	46,558	\$17.10	28,482	\$19.24
Weighted average remaining contractual life	8 years		9 years		9 years	
Options exercisable, end of period	17,844	\$17.93	9,994	\$18.51	7,044	\$19.98
Weighted average fair value of options granted	\$ 2.89		\$ 9.15		\$ 9.63	

The following table summarizes information about stock options outstanding and exercisable as of December 31, 2002:

Options Outstanding				Options Exercisable			
Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	
	(in thousands)			(in thousands)			
\$ 1.11 — \$ 2.85	9,184	10 years	\$ 2.58	125	10 years	\$ 1.58	
\$ 9.13 — \$ 13.96	19,676	9 years	12.20	4,330	9 years	12.50	
\$ 14.31 — \$ 20.00	16,180	7 years	19.04	11,024	7 years	19.23	
\$ 20.46 — \$ 23.09	8,592	8 years	22.21	2,365	8 years	22.14	

The Company uses the intrinsic value method prescribed by APB Opinion No. 25, "Accounting for Stock Issued to Employees," to account for the option plans. Option compensation expense of \$5 million, a net option compensation benefit of \$5 million and option compensation expense of \$38 million for the years ended December 31, 2002, 2001 and 2000, respectively, was recorded in the consolidated statements of operations since the exercise prices of certain options were less than the estimated fair values of the underlying membership interests on the date of grant. A reversal of previously recognized option compensation expense of \$22 million for the year ended December 31, 2001 was recorded in the consolidated statements of operations primarily in connection with the waiver of the right to approximately seven million options by the Company's former President and Chief Executive Officer as part of his September 2001 separation agreement. This was partially offset by expense recorded because exercise prices on certain options were less than the estimated fair values of the Company's stock at the time of grant. Estimated fair values were determined by the Company using the valuation inherent in the companies acquired by Paul G. Allen in 1998 and valuations of public companies in the cable television industry adjusted for factors specific to the Company. Compensation expense is being recorded with the method described in FIN 28 over the vesting period of the individual options that varies between four and five years. As of December 31, 2002, deferred compensation remaining to be recognized in future periods totaled \$2 million. No stock option compensation expense was recorded for the options granted after November 8, 1999, since the exercise price was equal to the estimated fair value of the underlying membership interests or shares of Class A common stock on the date of grant. Since the membership units are exchangeable into Class A common stock of Charter on a one-for-one basis, the estimated fair value was equal to the quoted market values of Class A common stock.

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On July 25, 2001, the Company issued options to purchase 186,385 shares of Charter Class A common stock to a consultant in consideration of services to be rendered in the future, pursuant to an equity compensation plan not approved by shareholders. The options are exercisable immediately, at an exercise price of \$20.46 per share and if not exercised prior to the tenth anniversary of the grant date, will expire. The Company accounts for options granted to consultants in accordance with the provisions of SFAS No. 123 and recorded option compensation expense of \$3 million on July 25, 2001. The fair value of the options, \$13.95 per option, was estimated on the date of grant using the Black-Scholes option-pricing model and the following assumptions: risk-free interest rate of 5.7%; expected volatility of 49.8%; and an expected life of 10 years. The valuation assumed no dividends are paid.

On January 1, 2003, the Company adopted the fair value measurement provisions of SFAS No. 123, under which the Company will recognize compensation expense of a stock-based award to an employee over the vesting period based on the fair value of the award on the grant date. Adoption of these provisions will result in utilizing a preferable accounting method as the consolidated financial statements will present the estimated fair value of stock-based compensation in expense consistently with other forms of compensation and other expense associated with goods and services received for equity instruments. In accordance with SFAS No. 123, the fair value method will be applied only to awards granted or modified after January 1, 2003, whereas awards granted prior to such date will continue to be accounted for under APB No. 25, unless they are modified or settled in cash. Management believes the adoption of these provisions will not have a material impact on the consolidated results of operations or financial position of the Company. The ongoing effect on consolidated results of operations or financial position will be dependent upon future stock based compensation awards granted. Had the Company adopted SFAS No. 123 as of January 1, 2002, using the prospective method, option compensation expense for the year ended December 31, 2002 would have been \$20 million.

21. Special Charges

In the fourth quarter of 2002, the Company recorded a special charge of \$35 million, of which \$31 million is associated with its workforce reduction program and the consolidation of its operations from three divisions and ten regions into five operating divisions, elimination of redundant practices and streamlining its management structure. The remaining \$4 million is related to legal and other costs associated with the Company's ongoing grand jury investigation, shareholder lawsuits and SEC investigation. The \$31 million charge related to realignment activities includes severance costs of \$28 million and lease termination costs of \$3 million. The Company intends to terminate approximately 1,400 employees, of which 100 employees were terminated in the fourth quarter of 2002. As of December 31, 2002, a liability of approximately \$31 million is recorded on the accompanying consolidated balance sheet related to the realignment activities.

During the year ended December 31, 2001, the Company recorded \$18 million in special charges that represent \$15 million of costs associated with the transition of approximately 145,000 (unaudited) data customers from the Excite@Home Internet service to the Charter Pipeline Internet service, as well as \$3 million associated with certain employee severance costs.

In December 2001, the Company implemented a restructuring plan to reduce its workforce in certain markets and reorganize its operating divisions from two to three and operating regions from twelve to ten. The restructuring plan was completed during the first quarter of 2002, resulting in the termination of approximately 320 employees and severance costs of \$4 million of which \$1 million was recorded in the first quarter of 2002 and \$3 million was recorded in the fourth quarter of 2001.

22. Income Taxes

All operations are held through Charter Holdco and its direct and indirect subsidiaries. Charter Holdco and the majority of its subsidiaries are not subject to income tax. However, certain of these subsidiaries are corporations and are subject to income tax. All of the taxable income, gains, losses, deductions and credits of Charter Holdco are passed through to its members: Charter, Charter Investment, Vulcan Cable, and certain former owners of acquired companies.

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Charter is responsible for its share of taxable income or loss of Charter Holdco allocated to it in accordance with the Charter Holdco amended and restated limited liability company agreement ("Agreement") and partnership tax rules and regulations.

The Agreement provides for certain special allocations of net tax profits and net tax losses (such net tax profits and net tax losses being determined under the applicable federal income tax rules for determining capital accounts). Pursuant to the Agreement, through the end of 2003, net tax losses of Charter Holdco that would otherwise have been allocated to Charter based generally on its percentage ownership of outstanding common units will be allocated instead to the membership units held by Vulcan Cable and Charter Investment (the "Special Loss Allocations") to the extent of their capital account balances. The Agreement further provides that, beginning at the time Charter Holdco first generates net tax profits, the net tax profits that would otherwise have been allocated to Charter based generally on its percentage ownership of outstanding common membership units will instead be allocated to Vulcan Cable and Charter Investment (the "Special Profit Allocations"). The Special Profit Allocations to Vulcan Cable and Charter Investment will generally continue until the cumulative amount of the Special Profit Allocations offsets the cumulative amount of the Special Loss Allocations. The Agreement generally provides that any additional net tax profits are to be allocated proportionately among the members of Charter Holdco based on their ownership of Charter Holdco membership units. The cumulative amount of the actual income tax losses allocated to Vulcan Cable and Charter Investment as a result of the Special Loss Allocations through the period ended December 31, 2002 is approximately \$3.3 billion.

In certain situations, the Special Loss Allocations and Special Profit Allocations described above could result in Charter paying taxes in an amount that is more or less than if Charter Holdco had allocated net tax profits and net tax losses among its members based generally on the number of common membership units owned by such members. This could occur due to differences in (i) the character of the allocated income (e.g., ordinary versus capital), (ii) the allocated amount and timing of tax depreciation and tax amortization expense due to application of section 704(c) under the Internal Revenue Code, (iii) the amount and timing of alternative minimum taxes paid by Charter, (iv) the apportionment of the allocated income or loss among the states in which Charter Holdco does business, and (v) future federal and state tax laws. Further, in the event of new capital contributions to Charter Holdco, it is possible that the tax effects of the Special Profit Allocations and Special Loss Allocations will change significantly pursuant to the provisions of the income tax regulations. Such change could defer the actual tax benefits to be derived by Charter with respect to the net tax losses allocated to it or accelerate the actual taxable income to Charter with respect to the net tax profits allocated to it. As a result, it is possible under certain circumstances, that Charter could receive future allocations of taxable income in excess of its currently allocated tax deductions and available tax loss carryforwards.

In addition to the aforementioned reasons, under their exchange agreement with Charter, Vulcan Cable and Charter Investment may exchange some or all of their membership units in Charter Holdco for Charter's Class B common stock, be merged with Charter, or be acquired by Charter in a non-taxable reorganization. If such an exchange were to take place prior to the date that the Special Profit Allocation provisions had fully offset the Special Loss Allocations, Vulcan Cable and Charter Investment could elect to cause Charter Holdco to make the remaining Special Profit Allocations to Vulcan Cable and Charter Investment immediately prior to the consummation of the exchange. In the event Vulcan Cable and Charter Investment choose not to make such election or to the extent such allocations are not possible, Charter would then be allocated tax profits attributable to the membership units received in such exchange pursuant to the Special Profit Allocation provisions. The Company's principal shareholder has generally agreed to reimburse Charter for any incremental income taxes that Charter would owe as a result of such an exchange and any resulting future Special Profit Allocations to Charter.

For the years ended December 31, 2002, 2001 and 2000, the Company recorded deferred income tax benefits as shown below. The income tax benefits are realized through reductions in the deferred tax liabilities related to Charter's investment in Charter Holdco, as well as the deferred tax liabilities of certain of Charter's indirect corporate subsidiaries.

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Current and deferred income tax expense (benefit) is as follows (dollars in millions):

	December 31,		
	2002	2001	2000
Current expense:			
Federal income taxes	\$ —	\$ —	\$ —
State income taxes	2	—	—
	<u>2</u>	<u>—</u>	<u>—</u>
Current income tax expense	<u>2</u>	<u>—</u>	<u>—</u>
Deferred benefit:			
Federal income taxes	(456)	(11)	(9)
State income taxes	(66)	(1)	(1)
	<u>(522)</u>	<u>(12)</u>	<u>(10)</u>
Deferred income tax benefit:	<u>(522)</u>	<u>(12)</u>	<u>(10)</u>
Total income benefit	<u>\$ (520)</u>	<u>\$ (12)</u>	<u>\$ (10)</u>

The Company's effective tax rate differs from that derived by applying the applicable Federal income tax rate of 35%, and average state income tax rate of 5% for the years ended December 31, 2002, 2001 and 2000 as follows (dollars in millions):

	December 31,		
	2002	2001	2000
Statutory federal income taxes	\$ (969)	\$ (409)	\$ (304)
State income taxes, net of federal benefit	(138)	(58)	(43)
Valuation allowance provided	587	455	337
	<u>\$ (520)</u>	<u>\$ (12)</u>	<u>\$ (10)</u>
Provision for income taxes	<u>\$ (520)</u>	<u>\$ (12)</u>	<u>\$ (10)</u>

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The tax effects of these temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2002, 2001 and 2000 which are included in long-term liabilities are presented below (dollars in millions).

	December 31,		
	2002	2001	2000
Deferred tax assets:			
Net operating loss carryforward	\$ 1,489	\$ 893	\$ 423
Other	9	9	8
Total gross deferred tax assets	1,498	902	431
Less: valuation allowance	(1,444)	(857)	(402)
Net deferred tax assets	\$ 54	\$ 45	\$ 29
Deferred tax liabilities:			
Investment in Charter Holdco	\$ (266)	\$ (671)	\$ (671)
Property, plant & equipment	(47)	(34)	(15)
Franchises	(240)	(493)	(523)
Gross deferred tax liabilities	(553)	(1,198)	(1,209)
Net deferred tax liabilities	\$ (499)	\$(1,153)	\$(1,180)

As of December 31, 2002, the Company has deferred tax assets of \$1.4 billion, which primarily relate to the excess of cumulative financial statement losses over cumulative tax losses allocated from Charter Holdco. The deferred tax assets also include \$322 million of tax net operating loss carryforwards (generally expiring in years 2003 through 2022) of Charter and its indirect corporate subsidiaries, which are subject to separate return limitations. Valuation allowances of \$277 million exist with respect to these carryforwards.

The total valuation allowance for deferred tax assets as of December 31, 2002, 2001 and 2000 was \$1.4 billion, \$857 million and \$402 million, respectively. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. Because of the uncertainties in projecting future taxable income of Charter Holdco, valuation allowances have been established except for deferred benefits available to offset deferred tax liabilities.

The Company is currently under examination by the Internal Revenue Service for the tax years ending December 31, 1999 and 2000. Management does not expect the results of this examination to have a material adverse effect on the Company's consolidated financial position or results of operation.

23. Related Party Transactions

The following sets forth certain transactions in which the Company and the directors, executive officers and affiliates of the Company are involved. Unless otherwise disclosed, management believes that each of the transactions described below was on terms no less favorable to the Company than could have been obtained from independent third parties.

Charter has entered into management arrangements with Charter Holdco and certain of its subsidiaries. Under these agreements, Charter provides management services for the cable television systems owned or operated by its subsidiaries. The management services include such services as centralized customer billing services, data processing and related support, benefits administration and coordination of insurance coverage and self-insurance

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programs for medical, dental and workers' compensation claims. Certain costs for these services are billed and charged directly to the Company's operating subsidiaries and are included within operating costs. Such costs totaled \$176 million, \$119 million and \$51 million for the years ended December 31, 2002, 2001 and 2000, respectively. All other costs incurred on the behalf of the Company's operating subsidiaries are considered a part of the management fee and are recorded as corporate expense in the accompanying consolidated financial statements. For the years ended December 31, 2002, 2001 and 2000, the management fee charged to the Company's operating subsidiaries approximated the corporate expenses incurred by Charter Holdco and Charter on behalf of the Company's operating subsidiaries. The credit facilities of the Company's operating subsidiaries prohibit payments of management fees in excess of 3.5% of revenues until repayment of the outstanding indebtedness. In the event any portion of the management fee due and payable is not paid, it is deferred by Charter and accrued as liability of such subsidiaries. Any deferred amount of the management fee will bear interest at the rate of 10% per annum, compounded annually, from the date it was due and payable until the date it is paid.

Mr. Allen, the controlling shareholder of Charter, and a number of his affiliates have interests in various entities that provide services or programming to Charter's subsidiaries. Given the diverse nature of Mr. Allen's investment activities and interests, and to avoid the possibility of future disputes as to potential business, Charter may not, and may not allow its subsidiaries to, engage in any business transaction outside the cable transmission business except for certain existing approved investments. Should Charter or its subsidiaries wish to pursue a business transaction outside of this scope, it must first offer Mr. Allen the opportunity to pursue the particular business transaction. If he decides not to pursue the business transaction and consents to Charter or its subsidiaries to engage in the business transaction, they will be able to do so. The cable transmission business means the business of transmitting video, audio, including telephony, and data over cable television systems owned, operated or managed by Charter or its subsidiaries from time to time.

Mr. Allen or his affiliates own equity interests or warrants to purchase equity interests in various entities with which the Company does business or which provides it with products, services or programming. Among these entities are TechTV Inc. (TechTV), Oxygen Media Corporation (Oxygen Media), Digeo, Inc., Click2learn, Inc., Trail Blazer Inc., Action Sports Cable Network (Action Sports) and Microsoft Corporation. In addition, Mr. Allen and Mr. Savoy were directors of USA Networks, Inc. (USA Networks), who operates the USA Network, The Sci-Fi Channel, Trio, World News International and Home Shopping Network, owning approximately 5% and less than 1%, respectively, of the common stock of USA Networks. In 2002, Mr. Allen and Mr. Savoy sold their common stock and are no longer directors of the USA Network. Mr. Allen owns 100% of the equity of Vulcan Ventures Incorporated (Vulcan Ventures) and Vulcan Inc. and is the president of Vulcan Ventures. Mr. Savoy is also a vice president and a director of Vulcan Ventures. The various cable, media, Internet and telephony companies in which Mr. Allen has invested may mutually benefit one another. The agreements governing the Company's relationship with Digeo, Inc. are an example of a cooperative business relationship among Mr. Allen's affiliated companies. The Company can give no assurance that any of these business relationships will be successful, that the Company will realize any benefits from these relationships or that the Company will enter into any business relationships in the future with Mr. Allen's affiliated companies.

Mr. Allen and his affiliates have made, and in the future likely will make, numerous investments outside of the Company and its business. The Company cannot assure that, in the event that the Company or any of its subsidiaries enter into transactions in the future with any affiliate of Mr. Allen, such transactions will be on terms as favorable to the Company as terms it might have obtained from an unrelated third party. Also, conflicts could arise with respect to the allocation of corporate opportunities between the Company and Mr. Allen and his affiliates. The Company has not instituted any formal plan or arrangement to address potential conflicts of interest.

High Speed Access Corp. (High Speed Access) has been a provider of high-speed Internet access services over cable modems. During the period from 1997 to 2000, certain Charter entities entered into Internet-access related service agreements, and both Vulcan Ventures, an entity controlled by Mr. Allen, and certain of Charter's subsidiaries made equity investments in High Speed Access.

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On February 28, 2002, Charter's subsidiary and an affiliate to the Company, CC Systems, purchased from High Speed Access the contracts and associated assets, and assumed related liabilities, that served the Company's customers, including a customer contact center, network operations center and provisioning software. Immediately prior to the asset purchase, Vulcan Ventures beneficially owned approximately 37% and the Company beneficially owned approximately 13%, of the common stock of High Speed Access (including the shares of common stock which could be acquired upon conversion of the Series D preferred stock, and upon exercise of the warrants owned by Charter Communications Holding Company). Following the consummation of the asset purchase, neither the Company nor Vulcan Ventures beneficially owned any securities of, or were otherwise affiliated with, High Speed Access.

The Company receives or will receive programming for broadcast via its cable systems from TechTV, USA Networks, Oxygen Media and Action Sports. The Company pays a fee for the programming service generally based on the number of customers receiving the service. Such fees for the years ended December 31, 2002 and 2001 were each less than 2% of total operating expenses. In addition, the Company receives commissions from USA Networks for home shopping sales generated by its customers. Such revenues for the years ended December 31, 2002 and 2001 were less than 1% of total revenues. On November 5, 2002, Action Sports announced that it was discontinuing its business. The Company believes that the failure of Action Sports will not materially affect the Company's business or results of operations.

As discussed in Note 5, in April 2002, Interlink Communications Partners, LLC, Rifkin Acquisition Partners, LLC and Charter Communications Entertainment I, LLC, each an indirect, wholly-owned subsidiary of the Company, completed the cash purchase of certain assets of Enstar Income Program II-2, L.P., Enstar Income Program IV-3, L.P., Enstar Income/Growth Program Six-A, L.P., Enstar Cable of Macoupin County and Enstar Income IV/PBD Systems Venture, serving in the aggregate approximately 21,600 (unaudited) customers, for a total cash sale price of approximately \$48 million. In September 2002, Charter Communications Entertainment I, LLC purchased all of Enstar Income Program II-1, L.P.'s Illinois cable television systems, serving approximately 6,400 (unaudited) customers, for a cash sale price of \$15 million. Enstar Communications Corporation, a direct subsidiary of Charter Holdco, is a general partner of the Enstar limited partnerships but does not exercise control over them. All of the executive officers of Charter and Charter Holdco act as officers of Enstar Communications Corporation.

The Company purchases certain equipment for use in the Company's business from ADC Telecommunications, which provides broadband access and network equipment. Mr. Wangberg, a director for Charter, serves as a director for ADC Telecommunications. Such fees for the years ended December 31, 2002 and 2001 were each less than 1% of total operating expenses under this arrangement.

On January 10, 2003 Charter signed an agreement to carry two around-the-clock, high-definition networks, HDNet and HDNet Movies. The Company believes that entities controlled by Mr. Mark Cuban, co-founder and president of HDNet, owns 96.9% of HDNet and HDNet Movies as of December 31, 2002. As of December 31, 2002 Mr. Cuban, owns approximately 5.3% equity interest in Charter.

As part of the Bresnan acquisition in February 2000, CC VIII, an indirect limited liability company subsidiary of Charter, issued the CC VIII Interest to the Comcast Sellers. The CC VIII Interest is entitled to a 2% priority return on its initial capital amount and such priority return is entitled to preferential distributions from available cash and upon liquidation of CC VIII. The CC VIII Interest generally does not share in the profits and losses of CC VIII at present. The Comcast Sellers have the right at their option to exchange the CC VIII Interest for shares of Charter Class A common stock. Charter does not have the right to force such an exchange. In connection with the Bresnan acquisition, Mr. Allen granted the Comcast Sellers the right to sell to Mr. Allen the CC VIII Interest (or any Charter Class A common stock that the Comcast Sellers would receive if they exercised their exchange right) for approximately \$630 million plus 4.5% interest annually from February 2000. In April 2002, in accordance with such put agreement, the Comcast Sellers notified Mr. Allen of their exercise of the Comcast Put Right in full, and the parties agreed to consummate the sale in April 2003, although the parties also agreed to negotiate in good faith possible alternatives to the closing. On April 9, 2003, the parties agreed to extend the closing for up to thirty days. If the sale to Mr. Allen is consummated, Mr. Allen would become the holder of the CC VIII Interest (or, if previously exchanged by the current holders, any Charter Class A common stock issued to the current holders upon

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such exchange). If the CC VIII Interest is transferred to Mr. Allen, then, subject to the matters referenced in the next paragraph, Mr. Allen generally thereafter would be allocated his pro rata share (based on number of membership interests outstanding) of profits or losses of CC VIII. In the event of a liquidation of CC VIII, Mr. Allen would not be entitled to any priority distributions (except with respect to the 2% priority return, as to which such priority would continue), and Mr. Allen's share of any remaining distributions in liquidation would be equal to the initial capital account of the Comcast Sellers of approximately \$630 million, increased or decreased by Mr. Allen's pro rata share of CC VIII's profits or losses (as computed for capital account purposes) after the date of the transfer of the CC VIII Interest to Mr. Allen.

An issue has arisen as to whether the documentation for the Bresnan transaction was correct and complete with regard to the ultimate ownership of the CC VIII Interest following consummation of the Comcast Put Right. Our Board of Directors has formed a Special Committee comprised of Messrs. Tory, Wangberg and Nelson to investigate and take any other appropriate action on behalf of the Company with respect to this matter. Specifically, the Special Committee is considering whether it should be the position of Charter that Mr. Allen should be required to contribute the CC VIII Interest to Charter Holdco in exchange for Charter Holdco membership units, immediately after his acquisition of the CC VIII Interest upon consummation of the Comcast Put Right. To the extent it is ultimately determined that Mr. Allen must contribute the CC VIII Interest to Charter Holdco following consummation of the Comcast Put Right, the Special Committee may also consider what additional steps, if any, should be taken with respect to the further disposition of the CC VIII Interest by Charter Holdco. If necessary, following the completion of the Special Committee's investigation of the facts and circumstances relating to this matter, the Special Committee and Mr. Allen have agreed to a non-binding mediation process to resolve any dispute relating to this matter as soon as practicable, but without any prejudice to any rights of the parties if such dispute is not resolved as part of the mediation.

24. Commitments and Contingencies

Leases

The Company leases certain facilities and equipment under noncancellable operating leases. Leases and rental costs charged to expense for the years ended December 31, 2002, 2001 and 2000, were \$31 million, \$25 million and \$23 million, respectively. As of December 31, 2002, future minimum lease payments are as follows (in millions):

Year	Amount
2003	\$18,456
2004	14,202
2005	12,190
2006	9,212
2007	6,145
Thereafter	20,726

The Company also rents utility poles in its operations. Generally, pole rentals are cancelable on short notice, but the Company anticipates that such rentals will recur. Rent expense incurred for pole rental attachments for the years ended December 31, 2002, 2001 and 2000, was \$41 million, \$33 million and \$31 million, respectively. The Company pays programming fees under multi-year contracts ranging from three to six years typically based on a flat fee per customer, which may be fixed for the term or may in some cases, escalate over the term. Total programming costs paid to programmers were \$1.2 billion, \$951 million and \$763 million for the years ended December 31, 2002, 2001 and 2000, respectively.

Litigation

Fourteen putative federal class action lawsuits (the "Federal Class Actions") have been filed against Charter and certain of its former and present officers and directors in various jurisdictions allegedly on behalf of all purchasers of Charter's securities during the period from either November 8 or November 9, 1999 through July 17 or July 18, 2002. Unspecified damages are sought by the plaintiffs. In general, the lawsuits allege that Charter utilized misleading accounting practices and failed to disclose these accounting practices and/or issued false and misleading financial statements and press releases concerning Charter's operations and prospects.

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In October 2002, Charter filed a motion with the Judicial Panel on Multidistrict Litigation (the "Panel") to transfer the Federal Class Actions to the Eastern District of Missouri. On March 12, 2003, the Panel transferred the six Federal Class Actions not filed in the Eastern District of Missouri to that district for coordinated or consolidated pretrial proceedings with the eight Federal Class Actions already pending there. The Panel's transfer order assigned the Federal Class Actions to Judge Charles A. Shaw. By virtue of a prior court order, StoneRidge Investment Partners LLC became lead plaintiff upon entry of the Panel's transfer order. We anticipate that the lead plaintiff will file a single consolidated amended complaint shortly. No response from Charter will be due until after this consolidated amended complaint is filed.

On September 12, 2002, a shareholders derivative suit (the "State Derivative Action") was filed in Missouri state court against Charter and its current directors, as well as its former auditors. A substantively identical derivative action was later filed and consolidated into the State Derivative Action. The plaintiffs allege that the individual defendants breached their fiduciary duties by failing to establish and maintain adequate internal controls and procedures. Unspecified damages, allegedly on Charter's behalf, are sought by the plaintiffs.

Separately, on February 12, 2003, a shareholders derivative suit (the "Federal Derivative Action"), was filed against Charter and its current directors in the United States District Court for the Eastern District of Missouri. The plaintiff alleges that the individual defendants breached their fiduciary duties and grossly mismanaged Charter by failing to establish and maintain adequate internal controls and procedures. Unspecified damages, allegedly on the Charter's behalf, are sought by the plaintiffs.

In addition to the Federal Class Actions, the State Derivative Action and the Federal Derivative Action, six putative class action lawsuits have been filed against Charter and certain of its current directors and officers in the Court of Chancery of the State of Delaware (the "Delaware Class Actions"). The Delaware Class Actions are substantively identical and generally allege that the defendants breached their fiduciary duties by participating or acquiescing in a purported and threatened attempt by Defendant Paul Allen to purchase shares and assets of Charter at an unfair price. The lawsuits were brought on behalf of Charter's securities holders as of July 29, 2002, and seek unspecified damages and possible injunctive relief. No such proposed transaction by Mr. Allen has been presented.

The lawsuits discussed above are each in preliminary stages and no dispositive motions or other responses to any of the complaints have been filed. No reserves have been established for those matters because the Company believes they are either not estimable or not probable. Charter intends to vigorously defend the lawsuits.

In August of 2002, Charter became aware of a grand jury investigation being conducted by the United States Attorney's Office for the Eastern District of Missouri into certain of its accounting and reporting practices, focusing on how Charter reported customer numbers, refunds that Charter sought from programmers and its reporting of amounts received from digital set-top terminal suppliers for advertising. Charter has been advised by the U.S. Attorney's Office that no member of the Board of Directors, including its Chief Executive Officer, is a target of the investigation. Charter is fully cooperating with the investigation.

On November 4, 2002, Charter received an informal, non-public inquiry from the Staff of the Securities and Exchange Commission (SEC). The SEC has subsequently issued a formal order of investigation dated January 23, 2003, and subsequent document subpoenas. The investigation and subpoenas generally concern Charter's prior reports with respect to its determination of the number of customers, and various of its other accounting policies and practices including its capitalization of certain expenses and dealings with certain vendors, including programmers and digital set-top terminal suppliers. Charter is actively cooperating with the SEC Staff.

Charter is unable to predict the outcome of the lawsuits and the government investigations described above. An unfavorable outcome in the lawsuits or the government investigations described above could have a material adverse effect on Charter's results of operations and financial condition.

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Charter is generally required to indemnify each of the named individual defendants in connection with these matters pursuant to the terms of its Bylaws and (where applicable) such individual defendants' employment agreements. Pursuant to the terms of certain employment agreements and in accordance with the Bylaws of Charter, in connection with the pending grand jury investigation, SEC investigation and the above described lawsuits, Charter's current directors and its current and former officers have been advanced certain costs and expenses incurred in connection with their defense.

In addition to the matters set forth above, Charter is also party to other lawsuits and claims that arose in the ordinary course of conducting its business. In the opinion of management, after taking into account recorded liabilities, the outcome of these other lawsuits and claims will not have a material adverse effect on the Company's consolidated financial position or results of operations.

Charter has directors' and officers' liability insurance coverage that it believes is available for these matters, subject to the terms, conditions and limitations of the respective policies.

Regulation in the Cable Industry

The operation of a cable system is extensively regulated by the Federal Communications Commission (FCC), some state governments and most local governments. The FCC has the authority to enforce its regulations through the imposition of substantial fines, the issuance of cease and desist orders and/or the imposition of other administrative sanctions, such as the revocation of FCC licenses needed to operate certain transmission facilities used in connection with cable operations. The 1996 Telecom Act altered the regulatory structure governing the nation's communications providers. It removed barriers to competition in both the cable television market and the local telephone market. Among other things, it reduced the scope of cable rate regulation and encouraged additional competition in the video programming industry by allowing local telephone companies to provide video programming in their own telephone service areas.

The 1996 Telecom Act required the FCC to undertake a number of implementing rulemakings. Moreover, Congress and the FCC have frequently revisited the subject of cable regulation. Future legislative and regulatory changes could adversely affect the Company's operations.

The 1992 Cable Act permits certified local franchising authorities to order refunds of basic service tier rates paid in the previous twelve-month period determined to be in excess of the maximum permitted rates. During the years ended December 31, 2002, 2001 and 2000, the amounts refunded by the Company have been insignificant. The Company may be required to refund additional amounts in the future.

25. Employee Benefit Plan

The Company's employees may participate in the Charter Communications, Inc. 401(k) Plan. Employees that qualify for participation can contribute up to 50% of their salary, on a pre-tax basis, subject to a maximum contribution limit as determined by the Internal Revenue Service. The Company matches 50% of the first 5% of participant contributions. The Company made contributions to the 401(k) plan totaling \$8 million, \$9 million and \$7 million for the years ended December 31, 2002, 2001 and 2000, respectively.

26. Recently Issued Accounting Standards

Statement of Financial Accounting Standards (SFAS) No. 143, "Accounting for Asset Retirement Obligations," addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. The Company will adopt SFAS No. 143 on January 1, 2003. The Company does not expect the adoption of SFAS No. 143 to have a material impact on the Company's financial condition or results of operations.

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In April 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145 provides for the rescission of several previously issued accounting standards, new accounting guidance for the accounting for certain lease modifications and various technical corrections that are not substantive in nature to existing pronouncements. The Company will adopt SFAS No. 145 beginning January 1, 2003, except for the provision relating to the amendment of SFAS No. 13, which will be adopted for transactions occurring subsequent to May 15, 2002. The Company does not expect the adoption of SFAS No. 145 to have a material impact on the consolidated financial statements of the Company.

In June 2002, the Financial Accounting Standards Board issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS 146 requires that a liability for costs associated with an exit or disposal activity be recognized when the liability is incurred rather than when a company commits to such an activity and also establishes fair value as the objective for initial measurement of the liability. SFAS No. 146 will be adopted by the Company for exit or disposal activities that are initiated after December 31, 2002. Adoption will not have a material impact on the consolidated financial statements of the Company.

In December 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 148, "Accounting for Stock-Based Compensation — Transition and Disclosure." SFAS No. 148 amends SFAS No. 123 to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, it amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based compensation and the effect of the method used on reported results. The Company adopted SFAS No. 148 beginning January 1, 2003. On January 1, 2003, the Company also adopted SFAS No. 123, "Accounting for Stock-Based Compensation" on the prospective method under which the Company will recognize compensation expense of a stock-based award to an employee over the vesting period based on the fair value of the award on the grant date.

27. Parent Company Only Financial Statements

As the result of limitations on, and prohibitions of, distributions, substantially all of the net assets of the consolidated subsidiaries are restricted for distribution to Charter, the parent company. The following condensed parent-only financial statements of Charter account for the investment in Charter Holdco under the equity method of accounting. The financial statements should be read in conjunction with the consolidated financial statements of the Company and notes thereto. The information in this footnote has been revised from the information previously reported to reflect the Company's restatement of its consolidated financial statements of the years ended December 31, 2001 and 2000. See Note 3 for a description of the restatement.

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CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
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Charter Communications, Inc. (Parent Company Only)

Condensed Balance Sheet

	December 31, 2002
ASSETS	
Cash and cash equivalents	\$ 10
Receivable from related party	3
Investment in Charter Holdco	308
Notes receivable from Charter Holdco	1,433
	<u>\$ 1,754</u>
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current liabilities	\$ 13
Convertible notes	1,383
Deferred income taxes	266
Preferred stock — redeemable	51
Shareholders' equity	41
	<u>\$ 1,754</u>

Condensed Statement of Operations

	Year Ended December 31, 2002
REVENUES	
Interest income	\$ 76
Management fees	9
	<u>85</u>
EXPENSES	
Equity in losses of Charter Holdco	(2,922)
General and administrative expenses	(9)
Interest expense	(73)
	<u>(3,004)</u>
Total revenues	85
Total expenses	(3,004)
Net loss before income taxes	(2,919)
Income taxes	405
	<u>(2,514)</u>
Net loss	(2,514)
Dividend on preferred equity	(3)
	<u>(2,517)</u>
Net loss after preferred dividends	\$ (2,517)

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CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
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Condensed Statements of Cash Flows

	Year Ended December 31, 2002
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net loss after preferred dividends	\$ (2,517)
Equity in losses of Charter Holdco	2,922
Changes in operating assets and liabilities	10
Deferred income taxes	(405)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Investment in Charter Holdco	—
NET INCREASE IN CASH AND CASH EQUIVALENTS	10
CASH AND CASH EQUIVALENTS, beginning of year	—
CASH AND CASH EQUIVALENTS, end of year	\$ 10

The following table sets forth the parent-only condensed balance sheet, statement of operations and statement of cash flows of Charter which accounts for the investment in Charter Holdco under the equity method of accounting, showing previously reported and restated amounts as of December 31, 2001 (in millions):

Condensed Balance Sheet

	December 31, 2001	
	(As previously reported)	(As restated)
ASSETS		
Receivable from related party	\$ 14	\$ 14
Investment in Charter Holdco	2,912	3,256
Notes receivable from Charter Holdco	1,383	1,433
	<u>\$ 4,309</u>	<u>\$ 4,703</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities	\$ 14	\$ 13
Convertible notes	1,383	1,383
Deferred income taxes	—	671
Preferred stock — redeemable	51	51
Shareholders' equity	2,861	2,585
Total liabilities and shareholders' equity	<u>\$ 4,309</u>	<u>\$ 4,703</u>

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CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
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Condensed Statement of Operations

	Year Ended December 31, 2001	
	(As previously reported)	(As restated)
REVENUES		
Interest income	\$ 60	\$ 61
Management fees	6	6
	<u>66</u>	<u>67</u>
Total revenues		
EXPENSES		
Equity in losses of Charter Holdco	(1,179)	(1,168)
General and administrative expenses	(6)	(6)
Interest expense	(59)	(60)
	<u>(1,244)</u>	<u>(1,234)</u>
Total expenses		
Net loss	(1,178)	(1,167)
Dividend on preferred equity	(1)	(1)
	<u>\$(1,179)</u>	<u>\$(1,168)</u>
Net loss after preferred dividends		

Condensed Statements of Cash Flows

	Year Ended December 31, 2001	
	(As previously reported)	(As restated)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss after preferred dividends	\$(1,179)	\$(1,168)
Equity in losses of Charter Holdco	1,179	1,168
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investments in and receivables from Charter Holdco	(633)	(633)
Investment in Charter Holdco	(1,224)	(1,224)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of convertible notes	633	633
Net proceeds from issuance of common stock	1,218	1,218
Other	6	6
	<u>—</u>	<u>—</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	—	—
CASH AND CASH EQUIVALENTS, beginning of year	—	—
	<u>—</u>	<u>—</u>
CASH AND CASH EQUIVALENTS, end of year	\$ —	\$ —

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CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
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The following table sets forth the parent-only condensed balance sheet, statement of operations and statement of cash flows of Charter which accounts for the investment in Charter Holdco under the equity method of accounting, showing previously reported and restated amounts as of December 31, 2000 (in millions):

Condensed Balance Sheet

	December 31, 2000	
	(As previously reported)	(As restated)
ASSETS		
Receivable from related party	\$ —	\$ 10
Investment in Charter Holdco	4,228	3,447
Notes receivable from Charter Holdco	750	750
	<u>\$4,978</u>	<u>\$4,207</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities	\$ —	\$ 11
Payables to related party	1	—
Convertible notes	750	750
Deferred income taxes	—	671
Redeemable securities	1,104	8
Shareholders' equity	3,123	2,767
	<u>\$4,978</u>	<u>\$4,207</u>
Total liabilities and shareholders' equity		

Condensed Statement of Operations

	Year Ended December 31, 2000	
	(As previously reported)	(As restated)
REVENUES		
Interest income	\$ 9	\$ 7
Management fees	5	5
	<u>14</u>	<u>12</u>
EXPENSES		
Equity in losses of Charter Holdco	(829)	(858)
General and administrative expenses	(5)	(5)
Interest expense	(9)	(7)
	<u>(843)</u>	<u>(870)</u>
Total expenses		
Net loss	<u>\$(829)</u>	<u>\$(858)</u>

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Condensed Statements of Cash Flows

	Year Ended December 31, 2000	
	(As previously reported)	(As restated)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$(829)	\$(858)
Equity in losses of Charter Holdco	829	858
Changes in operating assets and liabilities	(19)	(19)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investments in and receivables from Charter Holdco	(750)	(750)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of convertible notes	750	750
NET DECREASE IN CASH AND CASH EQUIVALENTS	(19)	(19)
CASH AND CASH EQUIVALENTS, beginning of year	19	19
CASH AND CASH EQUIVALENTS, end of year	\$ —	\$ —

28. Unaudited Quarterly Financial Data (Restated)

The information in this footnote has been revised from the information previously reported to reflect the Company's restatement of its financial statements for the years ended December 31, 2002, 2001 and 2000. See Note 3 for a description of the restatement.

The following table presents quarterly data for the periods presented on the consolidated statement of operations:

	Year ended December 31, 2002			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	\$ 1,074	\$ 1,137	\$ 1,166	\$ 1,189
Income (loss) from operations	97	85	91	(4,593)
Loss before minority interest, income taxes and cumulative effect of accounting change	(234)	(354)	(368)	(4,991)
Net loss applicable to common stock	(317)	(160)	(167)	(1,873)
Basic and diluted loss per common share before cumulative effect of accounting change	(0.17)	(0.54)	(0.56)	(6.36)
Basic and diluted loss per common share	(1.07)	(0.54)	(0.57)	(6.36)
Weighted-average shares outstanding	294,394,939	294,453,454	294,454,659	294,457,934

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CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
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Year ended December 31, 2001				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	\$ 856	\$ 897	\$ 1,002	\$ 1,052
Loss from operations	(293)	(288)	(285)	(334)
Loss before minority interest, income taxes and cumulative effect of accounting change	(637)	(626)	(713)	(657)
Net loss applicable to common stock	(268)	(266)	(330)	(304)
Basic and diluted loss per common share before cumulative effect of accounting change	(1.11)	(1.04)	(1.12)	(1.03)
Basic and diluted loss per common share	(1.15)	(1.04)	(1.12)	(1.03)
Weighted-average shares outstanding	233,777,675	255,027,543	294,250,549	294,384,003

Year ended December 31, 2000				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	\$ 721	\$ 788	\$ 808	\$ 824
Loss from operations	(234)	(263)	(283)	(308)
Loss before minority interest and income taxes	(457)	(510)	(560)	(623)
Net loss applicable to common stock	(181)	(202)	(222)	(253)
Basic and diluted loss per common share	(0.81)	(0.91)	(0.99)	(1.08)
Weighted-average shares outstanding	221,917,083	222,089,746	224,965,289	233,738,668

The following tables reconcile the Company's previously filed quarterly financial data to the restated quarterly financial data included herein for revisions described more fully in Note 2 (in millions, except for share data). A summary of the nature of the reconciling items for each quarter has been provided below each table and should be read in conjunction with Note 3.

For the Three Months Ended March 31, 2002			
	As previously reported	Adjustments	As restated
Revenues	\$ 1,078	\$ (4)	\$ 1,074
Income (loss) from operations	(38)	135	97
Loss before minority interest, income taxes and cumulative effect of accounting change	(371)	137	(234)
Net loss applicable to common stock	(175)	(142)	(317)
Basic and diluted loss per common share before cumulative effect of accounting change	(0.59)	0.42	(0.17)
Basic and diluted loss per common share	(0.59)	(0.48)	(1.07)
Weighted average common shares outstanding, basic and diluted	294,394,939	—	294,394,939

Net loss applicable to common stock increased due to impairment of franchises caused by additional franchises being recorded in prior years related to corrections to purchase accounting for acquisitions in 1999 and 2000 and due to the expensing of certain costs originally capitalized associated with customer acquisition and installation and deferral of launch incentives. These adjustments were offset by the reversal of depreciation expense associated with certain assets that were not taken out service in the Company's rebuild and upgrade plan and the tax benefit generated by these adjustments.

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For the Three Months Ended June 30, 2002

	As previously reported	Adjustments	As restated
Revenues	\$ 1,158	\$ (21)	\$ 1,137
Income from operations	8	77	85
Loss before minority interest and income taxes	(431)	77	(354)
Net loss applicable to common stock	(203)	43	(160)
Basic and diluted loss per common share	(0.69)	0.15	(0.54)
Weighted average common shares outstanding, basic and diluted	294,453,454	—	294,453,454

Net loss applicable to common stock decreased as a result of the reversal of depreciation expense associated with certain assets that were not taken out of service in the Company's rebuild and upgrade plan, offset by the expensing of certain costs originally capitalized associated with customer acquisition and installation and deferral of launch incentives.

For the Three Months Ended September 30, 2002

	As previously reported	Adjustments	As restated
Revenues	\$ 1,179	\$ (13)	\$ 1,166
Income (loss) from operations	(17)	108	91
Loss before minority interest and income taxes	(493)	125	(368)
Net loss applicable to common stock	(240)	73	(167)
Basic and diluted loss per common share	(0.81)	0.25	(0.56)
Weighted average common shares outstanding, basic and diluted	294,454,659	—	294,454,659

The nature of the items decreasing net loss applicable to common stock was primarily the same as in the three months ended June 30, 2002, except for a decline in customer acquisition costs as the Company eliminated its customer acquisition campaigns through third-party contractors.

For the Three Months Ended March 31, 2001

	As previously reported	Adjustments	As restated
Revenues	\$ 874	\$ (18)	\$ 856
Loss from operations	(314)	21	(293)
Loss before minority interest, income taxes and cumulative effect of accounting change	(685)	48	(637)
Net loss applicable to common stock	(281)	13	(268)
Basic and diluted loss per common share before cumulative effect of accounting change	(1.20)	0.09	(1.11)
Basic and diluted loss per common share	(1.20)	(0.05)	(1.15)
Weighted average common shares outstanding, basic and diluted	233,777,675	—	233,777,675

The nature of the items decreasing net loss applicable to common stock was primarily the same as in the three months ended June 30, 2002.

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For the Three Months Ended June 30, 2001

	As previously reported	Adjustments	As restated
Revenues	\$ 928	\$ (31)	\$ 897
Loss from operations	(298)	10	(288)
Loss before minority interest and income taxes	(637)	11	(626)
Net loss applicable to common stock	(274)	8	(266)
Basic and diluted loss per common share	(1.07)	0.03	(1.04)
Weighted average common shares outstanding, basic and diluted	255,027,543	—	255,027,543

The nature of the items decreasing net loss applicable to common stock was primarily the same as in the three months ended June 30, 2002.

For the Three Months Ended September 30, 2001

	As previously reported	Adjustments	As restated
Revenues	\$ 1,044	\$ (42)	\$ 1,002
Loss from operations	(250)	(35)	(285)
Loss before minority interest and income taxes	(680)	(33)	(713)
Net loss applicable to common stock	(318)	(12)	(330)
Basic and diluted loss per common share	(1.08)	(0.04)	(1.12)
Weighted average common shares outstanding, basic and diluted	294,250,549	—	294,250,549

The nature of the items decreasing net loss applicable to common stock was primarily the same as in the three months ended June 30, 2002.

For the Three Months Ended December 31, 2001

	As previously reported	Adjustments	As restated
Revenues	\$ 1,107	\$ (55)	\$ 1,052
Loss from operations	(333)	(1)	(334)
Loss before minority interest and income	(655)	2	(657)
Net loss applicable to common stock	(306)	2	(304)
Basic and diluted loss per common share	(1.04)	0.01	(1.03)
Weighted average common shares outstanding, basic and diluted	294,384,003	—	294,384,003

The nature of the items decreasing net loss applicable to common stock was primarily the same as in the three months ended June 30, 2002.

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For the Three Months Ended March 31, 2000

	As previously reported	Adjustments	As restated
Revenues	\$ 722	\$ (1)	\$ 721
Loss from operations	(224)	(10)	(234)
Loss before minority interest and income taxes	(450)	(7)	(457)
Net loss applicable to common stock	(181)	—	(181)
Basic and diluted loss per common share	(0.81)	—	(0.81)
Weighted average common shares outstanding, basic and diluted	221,917,083	—	221,917,083

Net loss applicable to common stock increased due to the expensing of certain costs originally capitalized associated with customer installation and deferral of launch incentives. These adjustments were offset by the reversal of depreciation expense associated with certain assets that were not taken out of service in the Company's rebuild and upgrade plan.

For the Three Months Ended June 30, 2000

	As previously reported	Adjustments	As restated
Revenues	\$ 795	\$ (7)	\$ 788
Loss from operations	(241)	(22)	(263)
Loss before minority interest and income taxes	(494)	(16)	(510)
Net loss applicable to common stock	(197)	(5)	(202)
Basic and diluted loss per common share	(0.89)	(0.02)	(0.91)
Weighted average common shares outstanding, basic and diluted	222,089,746	—	222,089,746

The nature of the items increasing net loss applicable to common stock was primarily the same as in the three months ended March 31, 2000.

For the Three Months Ended September 30, 2000

	As previously reported	Adjustments	As restated
Revenues	\$ 839	\$ (31)	\$ 808
Loss from operations	(237)	(46)	(283)
Loss before minority interest and income taxes	(523)	(37)	(560)
Net loss applicable to common stock	(210)	(12)	(222)
Basic and diluted loss per common share	(0.93)	(0.06)	(0.99)
Weighted average common shares outstanding, basic and diluted	224,965,289	—	224,965,289

The nature of the items increasing net loss applicable to common stock was primarily the same as in the three months ended March 31, 2000.

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For the Three Months Ended December 31, 2000

	As previously reported	Adjustments	As restated
REVENUES	\$ 893	\$ (69)	\$ 824
Loss from operations	(269)	(39)	(308)
Loss before minority interest and income taxes	(588)	(35)	(623)
Net loss applicable to common stock	(241)	(12)	(253)
Basic and diluted loss per common share	(1.03)	(0.05)	(1.08)
Weighted average common shares outstanding, basic and diluted	233,738,668	—	233,738,668

The nature of the items increasing net loss applicable to common stock was primarily the same as in the three months ended March 31, 2000 with an additional adjustment to expense certain costs originally capitalized as customer acquisition costs.

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ATTACHMENT "E"

- 1 Provide the projected total revenue expected to be generated by the provision of telecommunications services to Arizona customers for the first twelve months following certification, adjusted to reflect the maximum rates for which the Applicant requested approval. Adjusted revenues may be calculated as the number of units sold times the maximum charge per unit.

Applicant's total revenue expected to be generated by the provision of telecommunications services to Arizona customers for the first twelve months following certification, adjusted to reflect the maximum rates for which the Applicant requested approval, is approximately \$2,000,000.

- 2 Provide the operating expenses expected to be incurred during the first twelve months of providing telecommunications services to Arizona customers following certification.

Applicant expects to incur operating expenses in the amount of \$1,570,836 during the first twelve months of providing telecommunications services to Arizona customers following certification. Such expenses will result from Applicant's contemplated deployment or leasing of switching equipment, transmission lines, associated electronics, routers and computer equipment in the State of Arizona.

- 3 Provide the net book value (original cost less accumulated depreciation) of all Arizona jurisdictional assets expected to be used in the provision of telecommunications service to Arizona customers at the end of the first twelve months of operation. Assets are not limited to plant and equipment. Items such as office equipment and office supplies should be included in this list.

Applicant estimates the net book value of all Arizona jurisdictional assets expected to be used in its provision of telecommunications services to Arizona customers at the end of the first twelve months of operation will be approximately \$827,174.

- 4 If the projected value of all assets is zero, please specifically state this in your response.

Not applicable.

- 5 If the projected fair value of the assets is different than the projected net book value, also provide the corresponding projected fair value amounts.

Not applicable.

ATTACHMENT "F"

DESCRIPTION OF MANAGEMENT PERSONNEL

MANAGEMENT QUALIFICATIONS

Patti Lewis – Director, Program Management and Operations - Telephony

Primary Responsibilities:

Management of all projects for deployment of new markets. Oversight and management of all back office and service delivery functions.

Experience:

2001 - Present

Charter Communications

Director - Program Management

2000 - 2001

Omniplex Communications (CLEC)

VP Business Operations

1999 - 2000

Omniplex Communications (CLEC)

Project Manager (business process design & billing system integration projects)
(CLEC)

1998 - 1999

Omniplex Communications (CLEC)

VP Service Delivery, Advanced Communications Group (CLEC)

1996 - 1998

Omniplex Communications (CLEC)

Business Operations Director, Brooks Fiber Properties (CLEC)

1995 - 1996

Nextel

Fulfillment Manager

1990 - 1995

CyberTel Cellular/Ameritech

Project Manager

1988 - 1990

Citicorp Mortgage

Internal Audit

1986 - 1988

Ernst & Young

Public Accounting

Education:

BSBA - 1986
Certified Public Accountant -1986
Master of Finance –1991

Michael P. Cornelius – Director, IP Telephony Engineering

Primary Responsibilities:

Design and implementation of the IP network and oversight of telephone network deployments.

Experience:

2000 - Present

Charter Communications

Director - IP Telephony Engineering

2000

Chorus Networks

Vice President - Technical Services

1999 - 2000

TDS Telecom

Manager - Network Architecture Planning

1997 - 1999

TDS Telecom

Director - Network Engineering

1995 - 1997

Sprint Spectrum, L.P.

Network Design Manager

1987 - 1995

Ameritech, Inc.

Manager and Director - Cost Analysis, Designed Services, Network, Services, Technical Planning and Integrated Network Planning - Loop Facility/Circuit Engineering, Provisioning Services.

Education:

Master of Business Administration - 1987

Bachelor of Science in Civil Engineering - 1982

Cisco Certified Network Associate (CCNA)

Registered Professional Engineer - State of Wisconsin

Carrie L. Cox - Director of Legal Regulatory Affairs - Telephony

Primary Responsibilities:

Regulatory compliance for all telephone operations and activities.

Experience:

2001 - Present

Charter Communications

Director of Legal and Regulatory Affairs - Telephone

1997 - 2001

Whyte Hirschboeck Dudek

Law Clerk and Associate Attorney

1981 - 1995

Wisconsin Bell (Ameritech)

Outside Plant Engineering

Education:

Bachelor of Arts - 1995

Juris Doctor - 1998

Brian Clark - Director of Financial Modeling and Fiscal Operations - Telephony

Primary Responsibilities:

Responsible for all financial analysis, business modeling and reconciliation.

Experience:

WillTel
Manager Tax and Treasury

CyberTel
Treasury Manager

DBX Corporation
VP Finance

MegsInet
CFO

CoreCom
VP Finance

Mission Networks
CFO

Education:

BS Business Administration - 1975
CPA in Missouri and Illinois

Mark Barber, Corporate Vice President - Telephony

Experience:

2002 - Present

Charter Communications Inc.

Corporate Vice President - Telephony

2000 - 2002

Charter Communications Inc

Regional Vice-President of Advanced Services

1995 - 2000

CFW Communications, Inc.

General Manager of Cable Operations / Added Director of Engineering,
Construction, Operations, Industry Relations & Wireless Business Development
for PCS, Cellular, Cable, LMDS and Paging

1994- 1995

Comcast Corporation

Vice-President / General Manager of Venezuela – Cable

1993 - 1994

Comcast Corporation

Corporate Director of Operations Europe – Cable Telephony

1992 - 1993

Comcast Corporation

Director of Operations – Birmingham – Cable Telephony

1992

CHASE INTERNATIONAL - POLAND

Regional Manager Poland – Cable

1990 - 1991

Chase International – Poland

General Manager – Gdansk - Cable

1988 – 1990

Hauser Communications

Director of Operations - Cable

1987 - 1988

Comsonics, Inc.

Vice President Sales & Marketing

1984 - 1986

Comsonics, Inc.

Vice-President Operations & Corporate Development

1983

Comsonics, Inc.

Manager of Repair Lab Services

1981- 1982

Comsonics, Inc.

National CATV Field Engineer

1979 - 1980

Instrumentation's Laboratories, Inc.

Regional Field Service Engineer

1973 - 1977

United States Marine Corps

Test Equipment Repair and Calibration of Radar, Radio, Nav-Aids and Test Equipment